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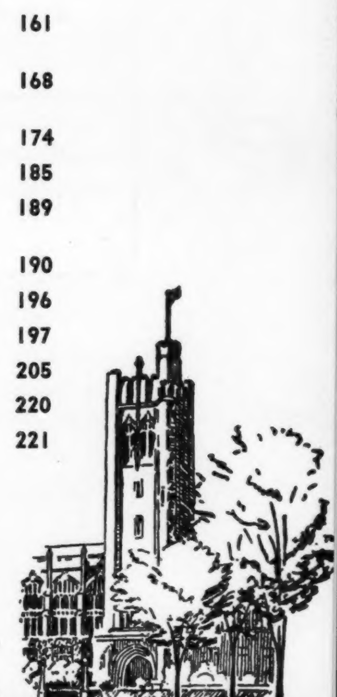

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ME XX NUMBER 3

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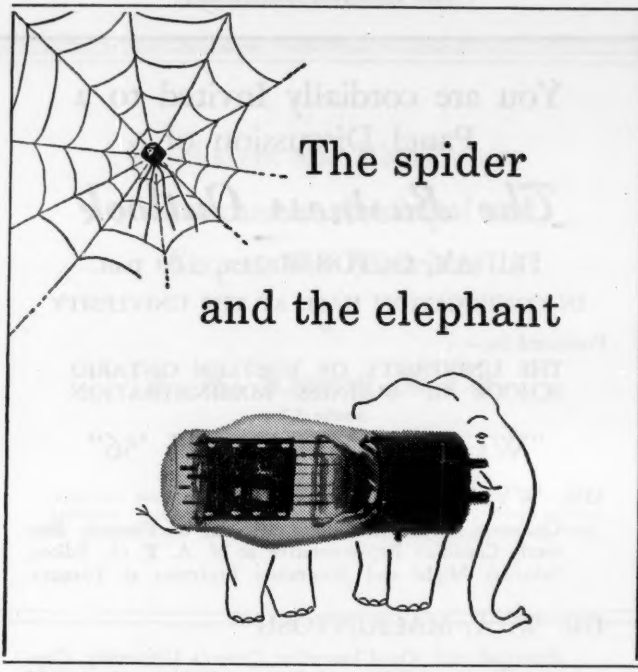

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VOLUME XX Number 3 — FALL 1955

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Editorial . . .

With a record number of subscribers we enter our 23rd year of publication. Bringing our magazine to the attention of an ever wider circle of Canadians has elicited their keen appreciation of a magazine devoted to business in Canada. Not only can we claim among our readers all of Canada's leading businessmen; our correspondence column bears witness to the interest of readers further afield.

But what should a magazine devoted to business in Canada comprise? It is hard to find any subject without a business angle. As Sir Graham Hayman, President of the Federation of British Industries, recently told a meeting of F.B.I. members — "The field we cover in national affairs is a very wide one, ranging from industrial taxation, rating and valuation, education, railway charges and coal shortages to the government commercial intelligence services and questions concerning our export and import policy." In this issue we publish an article by Canada's leading expert on taxation and another on export and import policy. Indeed the current issue should provide something to suit all tastes and interests. Hugh Mackenzie of Labatt's told his biographer in the current issue that the businessman has often more moral influence than the parson. Gordon Guest of Canadian Industries Ltd. outlines how forward looking businesses attempt to broaden the outlook and raise the sights of their own future leaders. Eric Curwain gives examples how foreign trade and association with foreign products in markets abroad help educate and improve artistic standards.

Nearer home, the problem of water supplies whether in home, factory or on the farm has produced many headlines and headaches; provincial expert Dr. Berry outlines how necessary it is to plan ahead. And still nearer home, Vicki Fremlin takes a local look at television.

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Letters to the Editor . . .

Should Universities Teach Business?

Sir:

I read Mr. Mitchell's article with considerable interest. Naturally I disagree with a good deal of what he says.

D. W. Logan,
Principal, University of London.

Sir:

The article by Mitchell was a red rag. Like so many others he looks on management as a trade or vocation, and therefore equivalent to teaching, medicine, the Church and so on. His whole thesis is based on that attitude and so he quite wrongly expects a course in business administration to produce a manager whereas he does not expect a teaching diploma to produce a headmaster.

Where he deals specifically with the universities, the error is at its greatest as he thinks that courses in business techniques will make managers whilst making no plans for training Bishops.

Chairman, Education Committee
Federation of British Industries.

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About Our Authors . . .

Before joining the staff of Canadian Industries Limited, **Dr. G. H. Guest** lectured in chemistry at McGill University. One of the pioneers in the executive development field in Canada, he is now Staff Development Administrator at C.I.L.

As Director of the Canadian Tax Foundation, **J. Harvey Perry** is in close contact with the tax problems of the business community and of governments throughout Canada. He is author of "Taxes, Tariffs and Subsidies" reviewed in this issue.

For the past four years **Vicki Fremlin** has been Women's Editor of the Farmer's Advocate and Canadian Countryman. Last year she wrote a series of broadcasts for London's CFPL-TV on "News from the Woman's Angle".

Dr. Albert E. Berry has been Director of the Sanitary Engineering Division of the Ontario Department of Health since 1926. He is Chairman of the Pollution Control Board of Ontario and a member of the Advisory Board to the International Joint Commission on the Pollution of Boundary Waters.

After graduating from the University of Toronto, **Arden Spence** enrolled in the one-year diploma course in journalism at the University of Western Ontario. She is now a reporter for the Toronto Daily Star.

This is the second time that **Eric Curwain**, formerly with the Canadian International Trade Fair, has contributed to The Business Quarterly. His article, "Exports as Ambassadors", appeared in the Spring 1955 issue.

Formerly assistant financial editor to the News-Chronicle and correspondent of the Economist in London, England, **Gordon Huson** combines editing The Business Quarterly with teaching international trade, finance, and investment management.

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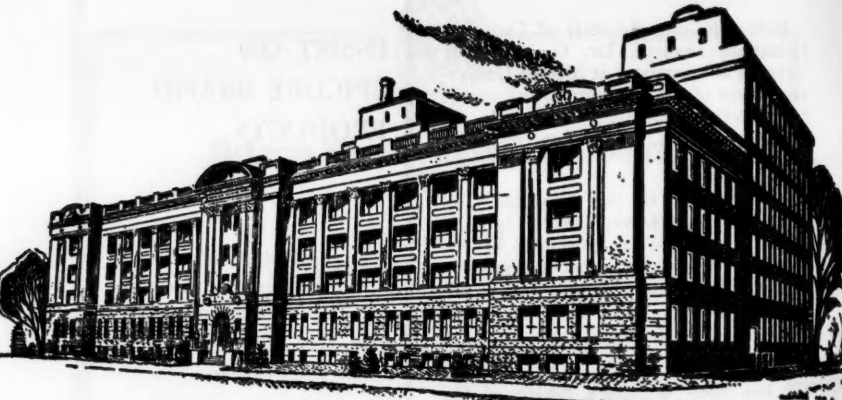

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Canada's Taxation Problems

J. Harvey Perry

Author Harvey Perry's monumental work, "Taxes, Tariffs and Subsidies", published this summer, is reviewed elsewhere in this issue. Here he brings us up to date on outstanding taxation problems, awaiting solution in Canada.

IN postwar Canada there have been so many revisions in tax policy and legislation that, taken as a whole, they constitute a fundamental reform in this all-important phase of government. The most sweeping of all was the complete re-writing of the federal income tax legislation to bring it into line with modern conditions and purge it of many undesirable features. With much of the previous practice codified in a statute it became possible to establish the Income Tax Appeal Board, thus providing for the first time in our history a cheap and easy means of legal recourse on income tax matters.

Broad changes in the incidence of the income tax have also been wrought, some more desirable than others. Business, in particular, has been concerned with the capital cost allowance plan, the accompanying adoption of diminishing balance, higher rates of write-off and the "recovery" system; the establishment of the two-bracket rate of tax for corporations in 1948; the introduction of the dividend tax credit, first at 10 per cent and later at 20 per cent; the provision for capitalization of undistributed surplus on payment of a 15 per cent tax, carrying the right of subsequent tax free redemption. These changes alone would have altered the face of the federal corporate tax structure, but they are only the most prominent of several dozen that could be mentioned.

On the side of personal income taxation there have also been revisions. The extremely complicated rate and exemption structure has been simplified, the allowances for medical expenses gradually broadened, reasonably satisfactory solutions found for taxing pensions, annuities, stock options and other employee benefits; and an important step has been taken in allowing deductions for travel and other expenses incurred in earning employment income. Other reforms could also be mentioned.

In other realms of federal taxation also progress has been made or is being made. The sales tax was greatly improved as a fiscal device with the exemption of industrial machinery and building materials, and a com-

mittee has recently been appointed to recommend ways for improving it as a legal instrument. The excise tax system generally has been tidied up by the elimination of many nuisance levies. The succession duty law is now undergoing an overhaul as well.

In the area of inter-governmental tax arrangements no time has been more satisfactory to the business community than the postwar period. By virtue of the Tax Rental Agreements overlapping taxation has been held to a minimum, with real advantages in economy of business administration. Where provincial and federal taxes are levied on the same source (e.g. corporate and personal income in Quebec), while complete integration has not been achieved, at least an attempt has been made to reduce outright double taxation. Even at the level of municipal taxation, where progress seems slowest to come, there has been some improvement in recent years. Serious attempts have been made to improve assessing practices and to establish reasonably uniform assessments over broader areas than in the past.

Lest the reader assume that this article is intended solely as a panegyric for our tax authorities it should be said at once that the foregoing conspectus of recent developments is only the foil for introducing a survey of things yet to be done. Undoubtedly we have come a long way in the last decade, and had renewed defence expenditures not intervened there would have been even further reforms. On the assumption that fairly heavy defence outlays will be maintained for some time it is idle to speculate on further major changes involving substantial sacrifice of revenue. However, even within this strict limitation there are several challenging problems that need continuing study and analysis; indeed it is the very fact that taxes are likely to remain high that makes it all the more desirable that we know our tax system thoroughly, know the effects it is having and as far as possible attempt to cure the effects which are undesirable. With the best will in the world on the part of all there will be many inequities and vexations that cannot be overcome, but at least we should keep on trying.

The following questions, all of which have practical bearing on our lives, demand attention. The list is by no means exhaustive.

Who Pays the Taxes?

Almost any programme of taxation rests on some assumptions — explicit or implicit — as to persons who will bear the taxes. In fact, however, our knowledge of the distribution of the tax burden in Canada is rudimentary. This is an age of income redistribution and much of our taxation has been directed to this end; but the design of individual measures has been based on general principles and intuition rather than on known data as to the incidence of the existing tax structure. A general idea of the weight of taxes throughout the income scale, as well as

the burden imposed on individual industries, social groups, and geographical regions would seem to be an essential working tool for any intelligent overall tax policy.

It can probably be taken for granted that if this were not the most complex and baffling area of tax analysis this gap would have been filled long ago. Since in a sense this is the *ultimate* tax study it brings into play all available factual and theoretical knowledge, and the inadequacies of these are soon apparent. The basic information for a study of tax burden by income groups is detailed up-to-date data on individual or family expenditures within income classifications. (Expenditure information is needed for estimating the tax burden which arises from the taxes on outlays as distinct from those on income.) At the present time in Canada we do not have information of a quantity and quality suitable for this purpose. In time it may become available as a by-product of marketing or other surveys, but it is doubtful if any private organization will ever have funds sufficient to sponsor such a study solely for tax incidence purposes. The Dominion Bureau of Statistics may someday fill the gap by broadening out and bringing up to date an earlier survey, but this undoubtedly is only one of many competing demands on the Bureau's available staff and funds.

Even with such data available there remain some baffling problems of interpretation. Perhaps the worst is the allocation by income groups of the incidence of the corporation profits tax. Economists and businessmen are poles apart in their attitudes towards the ultimate resting place of this very important tax. The former hold almost unanimously that it cannot be passed on by the corporation (and therefore falls mainly on shareholders by way of reduced dividends), whereas many businessmen appear to regard the tax as simply another cost, to be passed on to the consumer in higher prices as far as possible. The usual practice in incidence studies carried out in other countries is to make an arbitrary allocation of part of the tax against consumers and part against shareholders, and perhaps nothing better can be done. But the corporation profits tax is so predominant an element in modern revenue systems that its allocation will have a profound bearing on the ultimate results of the study. The same can be said of the real property tax and other levies which do not fall directly on the income or outlays of the consumer. These are shortcomings in the quality of our theoretical analyses, which with closer attention in time we may be able to overcome.

What Results Flow From Various Forms of Tax?

In a sense this is a part of the problem of overall incidence, since before the ultimate effect of any individual levy can be ascertained it is essential to know where that levy finally rests. But there are equally important reactions at the initial point of impact of a tax which are fre-

quently relied on to give support to an overall fiscal policy. Again it must be said that these effects are not known with any certainty, and that fiscal policies based on assumptions regarding them contain a large element of chance. For example, it is generally assumed by economists that higher personal income taxes in buoyant times will have a deflationary effect by reducing consumer spending power. But it is almost as valid to argue that, in times of full employment, reduced output and pressure for higher wages may just as easily result from an increase in personal income taxes. In fact, a recent budget in Holland made tax *reductions* on the proposition, contrary to the usual one, that the results would be deflationary by reason of reduced pressure for higher wages.

Even more speculative in the present state of our knowledge are arguments as to the relative merits of changes in income taxes versus changes in consumption taxes for specific economic objectives. Many economists now favour the proposition that a reduction in consumption taxes, for example, will have a more immediate and lasting effect in stimulating consumer expenditure than a reduction in income taxes. To the extent that the economy is influenced by the spending of consumers who are below the income tax levels and are reached only through changes in consumption taxes there is some reason for leaning in this direction. But today this is a smaller section of the community than ever before, and when it becomes a question of saying whether the buying habits of the mass of the families in the country are affected by lower prices (reduced consumption taxes) or more money to spend (reduced income taxes), then the economists do not know. They are only guessing, and since this guessing is based on introspection it is likely to be pretty wide of the mark. Even advertising and marketing experts, who study the consumer daily under a microscope, do not pretend to have found the secret of his motivations. Since the "consumer" in most families means the housewife, the economist is going to have to know a great deal more about her before he can support generalizations of the sort which are frequently pontificated nowadays.

One could go on listing other taxes, the exact effects of which are shrouded in obscurity. In the United States, particularly at the Harvard Business School, attempts have been made through expensive "field" research programmes to tear the veil from some of these mysteries. We will need a great deal more of this type of research before it will be possible to speak with confidence about the effects of taxation.

What is Income?

This is an odd question to introduce into a list of modern tax problems, since income taxes are now the pillar of most revenue systems and one would assume that the subject of the tax would be well understood. In fact, one only has to be reminded of the frequency of arguments as

to the inclusion of some individual receipt or the deductibility of some individual outlay to appreciate that we have not yet evolved a definite concept of income for tax purposes. In business taxation there is the four way pull between the management, usually interested mainly in reducing the tax bill to the minimum; the accounting profession, concerned with presenting a balance sheet and profit and loss statement leaning towards the conservative side; the legal profession, attempting to bring to bear the word of law and the weight of jurisprudence; and the tax authorities, usually concerned with getting the maximum number of tax dollars. Our concept of income is at any one time the point at which these forces have reached a balance, rather than the result of a rational intellectual process.

Of late some progress has been made, however. There do not appear to be as many important areas of conflict between business income and taxable income as there were even a decade ago. Most of those remaining now arise out of differences as to the timing of income or deductions (prepaid receipts, reserves, inventory valuation, etc.) rather than from absolute differences as to whether or not deductions may be taken or receipts included. In fact, with a continuation of the trend of recent years there will soon be few legitimate business expenses which are not deductible for income tax purposes.

Capital gains taxation will probably remain a permanent point of contention. The Canadian jurisprudence of the past decade has helped to clear up some of the uncertainty as to the legal concepts, but our rapid economic development continually creates unearned and untaxed capital increments and gives rise to more and more doubt as to the social implications of the absence of a capital gains tax. Granted that on the whole we probably stand to benefit economically by not impeding development of our resources by a capital gains tax, in a sense it is ironical that we have attempted to achieve this result by applying the English jurisprudence. Under it the chance or casual (i.e. unearned) capital increment is untaxed, while the profit resulting from concerted and serious development of properties of any kind is described as a trade and is subject to tax in full. Somehow this seems like a reversion of the rule we would adopt if we were interested solely in encouraging economic development, which is said to be the purpose behind the government's present attitude towards capital gains taxation.

Should Income Tax Incentives be Extended?

Time and again in recent years the income tax has been used for stimulating some specific activity or other. Accelerated depreciation has frequently been the mainstay of such programmes, but exemptions, reduced rates and special treatment of one kind or another have also been granted. There is always pressure on the government for some conces-

sion or other to encourage a worthwhile activity, and the principles which should govern their extension are by no means clear. This is particularly true where some measure has already been applied in almost analogous circumstances, and where the income tax can be shown to be the principal obstacle to advance in a certain desirable direction.

One of the most frequently mentioned problems today is the contrast between the position of the person who must provide for his own retirement and the employee who is a member of a pension plan. The "self-saver" must provide for his retirement out of taxed income, whereas the "pension-saver" may deduct his contributions from taxable income. This treatment for the pension saver was established almost at the outset of the income tax and seems in retrospect to be a sensible avoidance of the problem of taxing a wage earner on money which he no longer has in his possession (along with his employer's contribution as well) because he has put it into a pension plan. Because this treatment seemed logical and inevitable in this case the government has so far refused to listen to arguments that it has established a discrimination against the self-saver who is providing for his own retirement. Once discrimination is admitted in logic it probably has to be conceded that one kind of saver has been favoured in preference to *all* other savers — including savers purchasing homes, buying bonds or life insurance, depositing money in the bank, and so on. There is a real dilemma here, particularly because many self-employed persons, such as professional men with their own firms, have already established pension plans for their staffs but are prevented by the present laws from themselves becoming members and deducting their contributions.

Suggestions for the use of the income tax for incentive purposes are so varied that it would take a long list to catalogue all the possibilities. In a very short period prior to the preparation of this article the author was asked in the ordinary routine of events to express views on (a) income tax concessions to assist export industries; (b) income tax concessions to stimulate more extensive Canadian ownership of foreign-owned industries carrying on business in Canada; (c) income tax concessions to encourage farmers and the public at large to go into "tree-farming" to increase our forest resources; (d) income tax concessions to encourage the Canadian construction and ownership of ships; and (e) income tax concessions to encourage the purchase of accident and disability insurance by self-employed persons. It is very likely that in this same short period of time the Minister of Finance received requests for tax concessions from a hundred different people for a vast variety of purposes.

There are no rules by which decisions of this order can be made, and each case will continue to be judged on its own merits. As always the problem becomes one of determining to what extent the general

public welfare can be advanced by concessions to individual segments of the community. Of themselves concessions conflict with the principle that all should be treated alike, but sometimes they can be justified on broader grounds.

How Should We Tax Inheritances?

There are some who would argue that we should not tax accumulated wealth at all, on the grounds that in a young and growing country all efforts should be directed to encouraging private capital formation. Any tax system which confiscates an estate within three or four transfers following the original owner may well be said to destroy one of the strongest forces responsible for the accumulation of wealth. Yet the redistribution of wealth and income are so firmly accepted today that no politician would dare propose that death taxes be abandoned entirely. Furthermore, in Canada it must be recognized that a good deal of "ability to pay" in the form of tax free capital gains makes no contribution whatever to society during the lifetime of the taxpayer, and it is not unfair therefore it should make some contribution on his death. At any rate it looks as though death taxes are here to stay, and it is more relevant for present purposes that a year ago the Minister of Finance threw open our national death tax legislation for complete review. Unfortunately most representations since made public have exhibited a mental fixation around the present $50,000 exemption. If people would take for granted that this rather crude and painfully obvious mechanical defect of the present structure will be among the first of its features to be remedied, some progress might be made in considering the really serious aspects of death taxation. They might consider first whether the general character of the duty might be changed to an estate tax, which in many ways is much less complicated than our present inheritance tax. South Africa and New Zealand have recently made this change, and it may well happen here as well. There is also the problem of the relationship of gifts made during lifetime to the tax on transmissions at death. In a sense the whole subject can be considered as a study of taxes on gifts, most of which are still made at death, but more and more of which are coming to be made before death. Should our present gift tax be revised and integrated more closely with the death tax? Under the death tax itself there are always vexing problems which seldom seem to be settled in a satisfactory way. Perhaps the toughest arise out of the valuation that should be placed on the right to receive a series of periodic payments. This comes up in various ways, but the most common are pension or insurance payments or payments from a trust passing to a survivor. Such payments are subject on receipt to tax as income in whole or in part, so that the problem arises also as to whether the potential income tax liability should be taken into account for death tax valuation. Joint properties are another source of trouble. How many husbands realize that they have left their wives a

potential gift tax problem, assessable at death, with interest, when they purchase a house and put it in joint ownership? Still more complicated problems arise in connection with such matters as powers of appointment, where the law is now so confused as almost to defy statement.

All these and many more things will have to be studied by Mr. Harris and his officials before a revised death tax law can be submitted to Parliament. And it is about time, too; the existing legislation is badly in need of revision.

What's Wrong With the Federal Sales Tax?

At the recent session of Parliament the Minister of Finance announced that a committee of businessmen would be asked to consider certain phases of the federal sales tax and make suggestions for improvements. These phases were (1) the base to which the tax applies when sales of the same item are made by the manufacturer at a variety of prices; (2) an appeal procedure against administrative determinations; (3) the taxable value for imported goods; (4) the exemptions which are conditioned on the use of the commodity.

Under all these headings the committee will encounter problem areas which have been allowed to persist over a long period. Basically the difficulty is that in many industries a more or less artificial price basis has to be established for sales tax purposes because the actual prices at which manufacturers sell reflect such widely different conditions (e.g. sales to wholesalers, retailers and consumers). This artificial base is usually determined from a rough average of the mark-up between the manufacturing and retail level in the industry, but is applied in reverse as a discount from list prices to establish price for sales tax. This system is not objectionable in itself, but has one highly interesting defect: it has no sanction in the Excise Tax Act and is therefore thought by most lawyers to be illegal. Since it does not legally exist the result is that the taxpayer has no legal right to its use, nor has he any right to appeal from a ruling of the administration, since such rulings are not based on law. The result is that even though a traffic infringement involving \$5 can be appealed, a sales tax ruling which may involve thousands of dollars a week is beyond reference to the courts. In short the administration now has the last say. This was almost the position under the Income War Tax Act, but the revolutionary revisions of the last decade have changed all that, and now almost any act of the administration is open to appeal by the taxpayer. And so it should be, and may very well be, when the Excise Tax Act is revised in the next year or so.

The position of imported versus domestic goods is in a sense part of the general problem of valuation for sales tax purposes, but with emphasis on one of two points of dissatisfaction. Imported goods now pay sales tax on "duty paid value", whereas the same goods sold by the domestic

manufacturer bear tax on the manufacturer's sale price, which often includes costs, such as distribution and advertising, which are not included in the price of the imported goods because they are incurred after the point at which tax applies on importations.

Some exemptions are vexatious because they cause an unnecessary amount of inconvenience for business; inconvenience and sometimes expense that is out of all proportion to the amouut of revenue at stake. The worst problem arises under the exemption of machinery and apparatus used *directly* in production. The word *directly* is so strictly construed that a piece of machinery has to be almost in direct contact with the product being made before it can qualify. While most machinery is exempt, the hairline distinctions that have been evolved to weed out the taxable machinery are forever causing confusion and misuderstanding. Another class of exemption giving trouble is building materials. Here again the lines are so finely drawn that they are the constant source of argument. In principle both these exemptions are very commendable, but now that they have been in effect for some years it should be possible to make them somewhat more general. And there are many more problems.

The above are all issues of tax policy and practice that must be settled in the future if we are to have the best tax system that can be devised. This list relates mainly to federal taxation and by no means exhausts even the problems in that sphere. No mention has been made of any issues in the provincial and municipal areas or in Dominion-provincial or provincial-municipal financial relations. All these are far too complex to attempt to discuss at the tail-end of this article, particularly since some of them are among the most challenging issues of public finance today. Simply to find answers to the pressing questions involved in financing schools and highways will strain the ingenuity of provincial and municipal authorities for the next decade, or possibly longer. But that is another story.

Looking Ahead

The winter issue of The Business Quarterly will feature "What Business Expects in 1956". Dr. W. A. Mackintosh, Principal of Queen's University, forecasts the Canadian scene and Berkeley Gaynor, Investment Vice-President of J. P. Morgan & Co., the American prospect. With their views will be published the results of the sixth poll of Canadian executive opinion conducted by the School of Business Administration.

The businessman and television are discussed by A. Davidson Dunton, Chairman of the C.B.C. Eugene Forsey of C.C.L. deals with high labour costs.

The 25 Favourites of the Investment Experts

The Twenty-Five Canadian Common Stocks in which 15 Largest Canadian Mutual Funds, 3 Non-Resident Owned Mutual Funds, 30 Largest Canadian Life Insurance Companies and 8 Canadian Investment Trusts invested largest dollar amounts at year end closest to December 31st, 1954.

		Market Value of Shares Held By				
		15 Can. & 3 Non-Res. Mutual Funds $000	30 Life Ins. Coy's $000	8 Canadian Investment Trusts $000	Total $000	% of Outst'ing Shares
1.	International Nickel	$8,695	$3,922	$1,016	$13,633	1.64
2.	Steel Company of Canada	5,938	5,285	712	11,935	7.01
3.	Aluminium Limited	4,578	5,148	2,084	11,808	1.64
4.	Imperial Oil	6,133	4,739	908	11,780	1.66
5.	British American Oil	6,824	3,656	714	11,194	4.58
6.	Bell Telephone	5,819	3,779	290	9,888	1.81
7.	Powell River	7,593	1,412	397	9,402	4.45
8.	Consolidated Paper	6,478	1,819	731	9,028	5.62
9.	Consolidated Mining & Smelting	4,237	2,578	1,674	8,489	1.67
10.	Bank of Montreal	3,371	3,657	177	7,205	3.71
11.	Royal Bank of Canada	3,592	3,228	204	7,024	3.28
12.	Price Brothers	4,227	1,450	1,342	7,019	7.08
13.	Canadian Bank of Commerce	3,765	2,788	262	6,815	4.54
14.	Noranda Mines	3,123	2,507	679	6,309	3.43
15.	Hiram Walker-Gooderham & Worts	4,416	1,268	468	6,152	3.09
16.	Industrial Acceptance	5,395	522	167	6,084	8.43
17.	Distillers Corporation - Seagrams	3,695	1,270	693	5,658	1.94
18.	Hudson's Bay Mining & Smelting	4,256	459	289	5,004	3.39
19.	Canadian Pacific Railways	4,149	643	179	4,971	1.00
20.	Bank of Nova Scotia	2,109	2,803	......	4,912	6.06
21.	McMillan & Bloedel Ltd. B	3,502	916	416	4,834	3.24
22.	Trader's Finance A	3,350	816	657	4,823	12.29
23.	British Columbia Power	3,559	488	448	4,495	5.39
24.	Canada Cement	4,228	43	207	4,478	1.29
25.	Interprovincial Pipe Line	3,175	611	499	4,285	2.81

The twenty-five Canadian common stocks in which these funds, life insurance companies and investment trusts held the largest percentage of outstanding shares at year end closest to December 31st, 1954.

		Market Value of Shares Held By				
		15 Can. & 3 Non-Res. Funds $000	Life Ins. Coy's $000	Canadian Investment Trusts $000	Total $000	% of Outst'ing Shares
1.	Toronto General Trusts	$ 100	$1,133	$ 134	$ 1,367	24.80
2.	Westeel Products	683	167	420	1,270	13.43
3.	Trader's Finance A	816	3,350	657	4,823	12.29
4.	British Columbia Packers A	85	......	477	562	11.72
5.	Russell Industries	504	501	426	1,431	10.86
6.	Bank of Toronto	1,564	2,184	......	3,748	10.59
7.	Dominion Stores	3,147	63	437	3,647	9.72
8.	Building Products	1,900	181	......	2,081	9.21
9.	General Petroleums	1	30	144	175	9.20
10.	Great Northern Gas Utilities	293	......	......	293	9.15
11.	Zellers	2,895	87	......	2,982	9.09
12.	Gypsum Lime and Alabastine	2,038	33	55	2,126	8.78
13.	Industrial Acceptance	522	5,395	167	6,084	8.43
14.	Imperial Bank of Canada	900	1,900	100	2,900	8.29
15.	British Columbia Packers B	......	......	291	291	7.93
16.	Dominion Textile	563	828	131	1,522	7.88
17.	Hudson's Bay Company	246	215	301	762	7.67
18.	Loblaw Groceterias B	2,368	......	210	2,578	7.38
19.	Page-Hersey Tubes	2,158	462	982	3,602	7.33
20.	Price Brothers	1,540	4,227	1,342	7,019	7.08
21.	Steel Company of Canada	5,285	5,938	712	11,935	7.01
22.	Lewis Brothers	.....	4	80	84	6.99
23.	Dominion Bridge	2,289	804	410	3,503	6.81
24.	Asbestos	2,535	833	892	4,260	6.76
25.	Standard Paving and Materials	291	......	231	522	6.67

Trade—Round The World And Round The Clock

Eric Curwain

How can Canada be rid of the waste and disgrace of seasonal unemployment? Why not encourage Canadian industries to cater for foreign markets whose different seasons would fill out our manufacturing calendar? At present, Canadian manufactured exports play a very secondary role to exports of farm and forest, themselves subject to seasonal fluctuations.

Originally formed, in part, to encourage exports by Canadians, the Canadian International Trade Fair has now been discontinued. Yet the facilities it offered to our exporters were just as good in 1955 as in 1948, the year it began. Is the closing of the Trade Fair a confession of failure on the part of our manufacturers? The Trade Fair's publicity expert, Eric Curwain, who has worked in many overseas markets, here highlights some export problems and offers some suggestions for Canadian manufacturers.

ONE American describes his country's exports as "those extra five inches on the blanket which keep the bed warm." Exports, though a modest percentage of national income, are yet vital to the U.S. economy: they can, to many firms, represent the difference between profit and loss.

What are the inches on the Canadian bed? How many are there? Are they due to shrink in the near future? *If so, what can we do about it?*

Natural Exports

First, let us examine the main aspects of Canada's international trade. Until this century, exports consisted only of surplus natural products — fish and furs at first, later the forest and farm products: a glance at Canada's foreign trade figures shows how important they still rank today. To produce a single issue of one New York Sunday newspaper consumes a forest area of 220 acres, and the United States is drawing heavily on our wood pulp supplies to keep its presses rolling. The Kennedy Report of 1947 showed that our forests were in danger; and Ontario's Select Committee on Conservation in 1950 backed the Kennedy Report. Both committees quoted the Nigerian chief who said, "I conceive that the land belongs to a vast family of which many are dead, a few are living and countless numbers still unborn." Inevitably, sooner or later, our lumber

and pulp exports will have to be curtailed — if we are not mis-planning to bequeath the next generation a dustbowl.

Another Canadian export item which threatens to diminish is wheat and its derivatives. In the past few years, to mention but one example, Cuba has bought flour-milling machinery and our flour trade has now given way to selling the Cubans wheat. Obviously, flour is a more desirable export than wheat. It is thought in some quarters that Asia may become a bigger consumer of wheat products, in place of rice; but Japanese wheat-growers now enjoy a subsidy which guarantees them not less than $2.50 a bushel. Wheat-growers in Turkey, Germany, France and Britain and elsewhere are also heavily subsidized. This of course encourages the growing of wheat to the detriment of Canada's low-cost producers.

We thus arrive at one reason for turning our ingenuity to *manufacturing* goods for export and for placing less emphasis on those exports that either deplete too rapidly our natural wealth or which tend to bias our economy by undue reliance on seasonal products, such as wheat, which can easily be priced out of world markets. It is only necessary to remember that Britain's coal was once considered cheap and inexhaustible — now we see coals being imported into Newcastle.

Manufactured Products

The second category of export trade is that of the manufactured article, small or large. This is the *specialty* type of export. One of the first historical examples was Kolaois who sailed from Samos, about the time of Jeremiah, taking glazed Cretan pottery to Iberia in trade for gold. This Cretan invention of glazing made it possible to use the same vessel for different purposes, since the glaze retained no odours. The specialty of one country thus became the desire of another, and this is the basis of half the world's trade today.

This second category of exports includes also the import, and manufacture for re-export, of certain commodities such as cotton and wool, woods, metals and foodstuffs. "Invisible exports and imports", banking, insurance, and technical and other services can be considered within this second category.

"Unrequited" Exports

The third category of exports consists of materials sent abroad under the Colombo Plan and similar U.N. projects for Technical Assistance. These represent the tacit admission of the 20th century that we now live in one world; and they cost the Canadian taxpayer over $25 millions a year for Colombo Aid alone to certain Commonwealth countries of Asia. The goods supplied are some of those already enumerated in categories

one and two above — raw materials, manufactured products and technical services. These exports, "unrequited" by any payments or goods sent in exchange, should rightly be considered as a third category so as not to distort the true picture of those exports for which we are paid. But all exports, whether or not supplied under the Colombo Plan, NATO or other U.N. assistance agencies, are lumped together by the Dominion's statisticians in the figures of Canadian exports.

Which Exports Will Best Keep the Bed Warm?

Some Canadian businessmen and government officials already feel that our emphasis on the export of raw materials is too heavy. A Canadian Manufacturers' Association recent comment was: "It is not sound (tariff) policy to sacrifice the development and maintenance of domestic manufacturing industries for the purpose of encouraging the export of primary products as an end in itself. In the long run such a policy is bound to produce an economy based upon a few primary industries supported by relatively small and weak secondary industries."

Roughly 60% of Canada's overall exports are raw materials or partially manufactured products. The remaining 40% consist of fully or chiefly manufactured items. Yet 75% of our total imports are fully or chiefly manufactured. Obviously, the exports which benefit Canada most are those which make the fullest use of all our economic resources, including the greatest amount of employment and the greatest contribution to Canadian tax revenue. For example, unless a high "stumpage" fee is paid to the Province, there is little benefit to Canada if her forests disappear across the frontier, piped as pulp, to a factory paying its taxes to another country.

Limiting Factors in Our Export Drive

What are the factors holding back the exports of Canadian manufacturers? These are not only to be found abroad in foreign tariffs, quotas and currency restrictions: some of the greatest limitations are to be found here in Canada. It is the writer's feeling, shared by some expert Canadian trade officials, that our manufactured exports would be bigger if certain American companies allowed their Canadian subsidiaries to do more exporting instead of reserving that privilege for the U.S. plants.

The sales manager of a big Canadian plant producing electrical equipment told the writer that export enquiries which might result from exhibiting at the Canadian International Trade Fair would only be an embarrassment as his firm's exports went from the United States. Another example of restricted exports is that of an Ontario firm making transportation equipment which is now expressly ruled out of its former overseas markets because it has now become a subsidiary of a U.S. firm.

One of the most harmful restrictions imposed by U.S. parent companies is that of limiting the exports of their Canadian subsidiaries to Commonwealth countries, and this is now a common practice. When this measure was first put into effect there was in some cases very little disadvantage to the Canadian branch. Now, however, with dollar restrictions imposed on Commonwealth buyers, and with the dividing of the world into hard and soft currency blocks, this limitation on Canadian exporters is a big blow to our economy. In making a survey of export potential, the most frequent and disheartening phrase heard is: "We export to the Commonwealth only — the *rest of the world* is looked after by our U.S. factory." This reply comes from firms engaged in all types of manufacture. It reminds one of the couplet that was alleged to have been sung by humble villagers in England:

God bless the Squire and his relations
And keep us in our proper stations.

If such a policy of discrimination spreads among U.S. parent companies, Canada will become the Cinderella of international trade, once its raw material boom is ended. Cinderella will be left at home to sweep the hearth while her relatives go off and enjoy themselves. We shall then ask ourselves "What can we export and what do we manufacture that is likely to be acceptable and competitive overseas?"

Establishing a Reputation

Meantime the world markets are becoming accustomed to U.S. trade marks, advertising, and machinery and skilled in the use of U.S.-made machinery. When Canadians, manufacturing products identical to those of their American colleagues, try to break into these markets, the prestige factor is against them — prestige combined with custom. The remarkable post-war come-back of West Germany in machine tools and heavy machinery was possible only because of the prestige she already had in such fields: Canada's world fame in manufactured goods has yet to be established.

A reputation and a lie, curiously enough, have one thing in common: it takes a long time to overtake them. The process of overtaking either is the same — one has first to eradicate the impression which the reputation or the lie has implanted in somebody's mind and then implant the new idea. Naturally, when a foreign plant manager has been getting reliable performance from an American or German machine he will be reluctant to change to a Canadian model even if told that the same firm makes both models — the writer's experience has proved this. Moreover there is a natural reluctance to change the country of supply because of the fear of creating new shipping and currency problems and the wish not to lose personal contacts that have been satisfactory over the years.

Stimulus of Foreign Trade

If Canadian manufacturers, independent or foreign-owned, allow themselves to be pushed aside in the export race, they will face an even more serious handicap when finally they attempt to break into world markets. Their styling (and therefore much of their plant equipment) will be unsuited to the task. They will then find themselves with the embarrassing choice of either imitating competitive designs or losing time in creating new styles to outclass their rivals. Manufacturing continually for the home market breeds a fatal complacency as to design, quality and methods. A Scots-Canadian who this year visited his old shipyard on the Clyde was astounded. "No wonder," he said, "that British shipping lines are buying German vessels. In my old yard in Glasgow they are still using the old-fashioned methods I learned there as an apprentice. They will never be able to compete with the Germans unless they change their production methods drastically."

Yet another of the obstacles to Canadian exports existing right here in Canada is the *attitude* on the part of the average manufacturer — his reluctance to launch into export. Many instances could be quoted. At the end of the war Brazil, for example, sent a lengthy enquiry for locomotives, welding rods, etc.: she had formerly bought such material from Germany. This enquiry was circulated thoroughly among Canadian firms — not with just one letter to the manufacturer of a specific item but to numerous suppliers of the items. The responses were uniform: Canadian firms would not take on any export orders because the home market absorbed their production. A golden opportunity missed! Another enquiry at that time from Latin America was for fractional horsepower motors. Requests for quotations were sent to every Canadian manufacturer likely to be interested, but because of domestic commitments, none was able to tender. The order eventually went to a Swedish firm, which drew on its stockpile of motors non-delivered to a beaten Germany. The Swedish motors were more expensive and in some respects, later reports said, inferior. A third post-war enquiry covered a cement plant and a small hydro installation for Colombia. The money for the purchase was actually on deposit; but replies from Canadian firms said that their domestic production did not allow them to tackle overseas business. In all the above cases it was pointed out to the Canadians that this new overseas business would take care of their seasonal peace-time lay-offs which were bound to recur at war's end. Despite this, almost complete apathy met the lure of overseas business.

Strong Government Policy Needed

In July the Department of Trade and Commerce was advertising for specialists whose duties would include analysing the Canadian economy to judge the impact of foreign capital coming in to control certain Cana-

dian industries. Copying the British post-war action, it would be good policy for Canada's Government to require all foreign enterprises entering Canada to export a proportion of their output. Canada, a country which occupies almost one-third of the sun's daily orbit, is entitled to a proportionate place in the sunshine of world trade.

The overseas potential markets are always expanding as the world industrializes more and more, and American (and European) parent companies can well afford to give their Canadian offspring a fair share of such markets. If American firms in particular have any doubts about relative costs, let them look to the Coleman Lamp and Stove Company, one of the most successful American firms known throughout the world which, after careful studies of comparative costs, has its export office located in Ontario. This office controls the exporting of heating and domestic appliances produced in its Canadian and two large American plants. Export conferences are always held in the Ontario office and the U.S. directors of the business come up and discuss, on a basis of equality, the programme for next year's exports. If the Canadians feel that they should have a larger share in the markets, their claim meets a reasonable response. In this firm, the Ontario office controls not only the exports from all three plants but also the entire export advertising programme. The Company's representatives, who visit some fifty countries each year are, with one or two exceptions, all Canadian.

If Canada could achieve through exports a bigger demand for the products of existing plants we would be able to keep our young graduate engineers close to home, by paying them better. Many young Canadian engineers have found on their desk an unsolicited offer of a job from an American firm which somehow or other ferrets out their names. With a really prosperous manufacturing economy we could retain these engineers. There is no question of blaming these young men, but something must be done to counteract the effects of the motto: Graduate, then Emigrate.

Support Needed from and for the Small Manufacturer

Solutions to the problem must come from individual firms as well as from the Provincial and Federal governments. Canadian firms must become *aggressive.* This adjective is widely used in domestic business: advertisements require "aggressive accountants", "aggressive salesmen" and even "aggressive office boys". Seldom do we see an advertisement asking for "Aggressive export man, unafraid of tariffs, quotas, bills of lading, wanted to break into interesting and lucrative world-wide markets . . ."

Small manufacturers seeking export markets need more associations

that will function not only in an advisory capacity but also (a) do on-the-spot research, telling what machines or goods suit specific markets; (b) consolidate shipments from various exporters to get cheaper shipping rates; (c) process all export documents, drawbacks, insurance and other c.i.f. business that so often frightens the small manufacturer away from attempting exports.

Bank loans need to be financed on longer terms than are at present available. The scope of the Export Credits Insurance Corporation and the Bank of Industrial Development could be widened to help Canadian trade in Chile, for instance, where merchants have been led to expect ten-year credits through German and other competition.

Conclusion

In May, C. D. Howe told C.M.A. members that Canada is "endowed with a wealth of low-cost natural resources which are at once a challenge and an opportunity for those with vision." He was rebutting those who say that Canada is becoming "a high-cost economy", thus pushing itself out of many export possibilities. Mr. Howe went on: "Export trade, of course, remains one of the important props of our national prosperity." It would be more exact to say that export trade, in one form or another, is *the* prop of our daily lives. Almost every one of us is touched in some manner by the mechanics of export. Over thirty cents in every dollar of our national income depends on foreign trade.

Complacency in this matter of exports may result in part from imperfect understanding of statistics. When global figures of exports and imports are more or less in balance, and the deficit is met by borrowing from U.S.A., we do not worry too much as to how these figures are made up. Yet we should take warning from the barometer of our economy, showing recurring seasonal and cyclical lay-offs. These ever-recurring seasons of unemployment are partly explained by the fact that our impressive export totals are too long on raw materials and woefully short on manufactured goods.

If carefully developed and broadened to include more sales of Canadian manufacturers, our foreign trade could solve seasonal unemployment. Furthermore, as experience over the past three years has shown, a setback in North American domestic demand is not necessarily reflected elsewhere in the world. Firms with an experienced export department have been able to sell overseas those goods they could not sell in Canada or the U.S.A. If Canada had both diversified exports and diversified markets, its economy would be better insured against depressions, whether seasonal or cyclical.

How To Find And Train Tomorrow's Bosses

Gordon H. Guest

Executive training and the selection of future managers become increasingly important and difficult as Canadian industries grow. Our last winter issue outlined how C.N.R. solved its particular staff problem. Here Dr. Gordon H. Guest, head of the staff training programme at Canadian Industries Limited outlines how the case discussion method is used to select and develop superviors — and its other incidental advantages in morale and team building — in another big Canadian organization.

CANADIAN business depends essentially for its success upon the work and ability of the men and women who make up the managerial elite. As companies grow, the administrative problems of management multiply and continued progress depends, among other things, upon the development of employees with the necessary supervisory and technical abilities.

Most people will agree that the responsibility of developing staff is that of the immediate supervisor. He is the key man in teaching skills and encouraging certain *attitudes* in his work group. Experience has shown that the best way of making possible the growth and development of people is through the conscious teaching of subordinates by their immediate superiors. Affirmative teaching is a line, and not a staff, responsibility. Line supervision consists of daily development by shaping the work environment so that the subordinate will want to grow and develop. The fundamental idea is growth on the job.

Teaching subordinates is not a tool, a method or a device to be used by a supervisor. It is a philosophy of supervision. In fact, it is a good supervision. The core of this business of developing people is "how to make the supervisors do a better job of teaching."

The teaching process is essentially the same as the supervisory process. Thus, getting supervisors to be good teachers is simply an effort to encourage them at all levels to do a better job in the work that they are already doing. The willingness of supervisors to devote conscious effort to the problems of developing subordinates thus depends chiefly on their attitude.

The Importance of Attitude

Research by the Harvard School of Business Administration has proved that where superiors were concerned chiefly with their own position and status, subordinates had virtually no opportunity to grow and develop. On the other hand, the Harvard group found that when the attitude of an executive toward subordinates could be summed up by the Golden Rule, subordinates in the organization were encouraged to grow.

The problem in this task of getting supervisors to make possible the growth and development of subordinates is thus essentially that of affecting the attitudes of superiors throughout an organization.

A person's attitude is generally well formed when he leaves school and starts work. It is established and formed by inherited factors, physical environment, and the persons with whom he has associated. When he goes to work, his attitude is affected further by others in the organization, by management practices, by the results of experiences on the job, and by many other influences.

In view of the long period over which a person's attitude has been developed, any effort to change and improve it for more effective work as a supervisor is not likely to be a quick or any easy process. Each person's habits and attitudes are the results of years of exposure to affecting forces. However, this would appear to be the most important task in all staff development work. It is a real challenge but it is also an outstanding opportunity to make an important contribution to the growth and development of a company.

Some of the development tools that can be used in this task of attempting to change attitudes include: Role playing, psychological studies in perception, the incident case method and the case discussion method, as developed by Harvard. Early in 1953, for example, Canadian Industries Limited decided to experiment with the use of the case discussion method as a practical approach to this important task of improving the attitude of supervisors. Experience to date indicates that it is a very worthwhile endeavour and plans are being made to expand this phase of the staff development programme.

The Case Discussion Method

Everyone is familiar with the educational principle *that one must learn by doing*. The case discussion method is based on this important educational idea. It is aimed at developing the capacity to take action by making men act.

Cases are descriptions of real business situations which supervisors are facing and acting in today. They are obtained by professors of Busi-

ness Administration at Harvard, University of Western Ontario and other universities directly from business, labour, or government administrators. Since 1920, when organized case preparation began, Harvard, for example, has gathered about 19,000 cases from a wide variety of business concerns in nearly all kinds of industries. The University of Western Ontario already has collected hundreds of cases from within Canada.

The student who studies under the case method is repeatedly placed in situations where, as a supervisor, he must not only evaluate evidence but he must act with responsibility. The method forces a man to meet successively new situations in which he must grapple intellectually with fresh combinations of facts, half-facts and opinions. There are no answers for the case method student in the back of the text book, or indeed in any book. Faced with a labour problem for example, he must decide what he would do in the position of a particular individual in an actual company in a specific situation.

These cases have a way of not being "typical". Learning how to differentiate one situation from another and how to recognize the more important issues in cases contributes to the development of supervisory capacity.

The Three Phases

There are three phases of the case method. These are:

(1) *Analysis of a Case*—This is very important and it should be done carefully. It is advisable to read the case, if possible, several days before it is discussed. This is far better than reading it just before a discussion period. The case contains certain facts, beliefs, sentiments and feelings. It also describes certain activities and interactions of people. You apply *your* past experience to the case and develop *your* solution of the case.

(2) *Group Discussion*—This is, perhaps, the most interesting phase of this method of instruction. The group meets together to pool their experiences and to exchange ideas. The group leader uses the non-directive interviewing techniques and avoids giving his own personal opinions about the case. The group usually develops together a number of possible solutions.

(3) *Later Informal Discussions*—Experience shows that students continue thinking about cases and discussing them informally for several days.

C.I.L. Experience With the Case Method

Preliminary Phase. After careful consideration, it was decided to start with a course, known as *Administrative Practices,* that would emphasize human relations in business. An American case book, "The Adminis-

trator" by Glover and Hower, was selected as a text, as it contains excellent cases for courses at all levels.

C.I.L. has several industrial divisions. Each is self-contained in that it maintains a complete production, sales and development organization and yet functions through a central management. With such an organization it was necessary to demonstrate to each division that the course in *Administrative Practices* is of considerable value in supervisory development and sometimes it was necessary to give the top men in a division a demonstration of the case method of teaching.

The first course in Administrative Practices was attempted at a Quebec plant early in January 1953. Here a group of fourteen men consisting of the manager, assistant manager and superintendents offered themselves as "guinea pigs". The group met once a week for an hour and a half for 16 weeks. Shortly after starting the first course, other groups were organized at C.I.L. plants in Quebec and Ontario. During the period from January 1953 to June 1954, 13 groups, varying in size from 12 to 32 participants were organized in C.I.L. plants in Quebec and Ontario. Most groups considered 16 cases from The Administrator, and a total of 304 supervisory personnel experienced the course during the above-mentioned period. At two plants, sessions were held every two weeks, one case being discussed before lunch and another after lunch. At one plant, a considerable distance from Montreal, four cases were considered during two days of the first week of every month. At the other locations the sessions were held once a week. At all locations the time used for the discussion of a case was one hour and a half.

The Second Phase. During the summer of 1954 it was decided to continue the experimental approach in the use of the case method in supervisory development. Plans were made to offer the course in Administrative Practices to senior supervisory personnel at Montreal, Toronto and Edmonton. The courses at Montreal and Toronto were started in the late fall of 1954 and completed in the spring of 1955. The Edmonton course was planned for the spring and fall of 1955.

The groups organized at Montreal and Toronto ranged in size from 23 to 29 and they included sales managers, plant managers and other senior supervisors. These men have had considerable service with the company and they brought varied backgrounds and experiences to the group. Much care was taken in the selection of the members of each group and the number from each department was usually limited to three or four.

The courses at Montreal and Toronto consisted of five two-day sessions and these were held once a month. Six cases were usually discussed during each session and about 30 cases were discussed during each course.

The Edmonton course differed from those held at Montreal and Toronto in that each session lasted for five days instead of two. The group met each day at the conference room at the C.I.L. Polythene plant and it was composed of 16 senior men from the plant and 14 senior men from various plants and offices in Western Canada. The men attending this course included plant managers, district sales managers, a district credit manager, a district traffic manager, production superintendents and works accountants. The course consisted of two sessions, one in the spring and the other in the fall and about 30 cases were discussed. The Edmonton experience suggests that the two sessions of five days, separated by an interval of several months, appear to be more effective than five two-day sessions at monthly intervals.

An Experiment With Foremen and Junior Supervisors

Early in the fall of 1954 an experiment in the use of the case method in the development of foremen and junior supervisors was started at a plant in Ontario. A course, known as *Administrative Practices,* was carefully planned. It consisted of the discussion of twelve cases selected from *The Administrator.* The first experimental group consisted of ten foremen, including two from another company, and four junior supervisors. The group met every two weeks for 12 weeks and one case was discussed each time. On the basis of this experiment and a similar one at a Quebec plant, it was decided to try the case method in the development of foremen and junior supervisors in most C.I.L. plants across the country. During the period from September 1954 to June 1955, 22 groups were held with an attendance of 418. This experiment with foremen and junior supervisors furnished much valuable information that has already been useful in planning future courses for this group of supervisors.

An Important By-Product

An important by-product of the use of the case method is its application to the consideration of current on-the-job problems. For example, in one division nearly all the district sales managers are using the case method approach at their monthly sales meetings. Current problems facing a sales district are sometimes written up as cases. These cases are mimeographed and sent to the salesmen a few days before the sales meeting. At the meeting many fruitful ideas are secured through the discussion of the problem. This seems to be a useful way of securing participation of salesmen in dealing with current on-the-job problems. It also tends to increase the morale of the group.

Conclusion

The use of the case method in supervisory development is realistic. Furthermore, it is consistent with current observations on the teaching-learning problem. The important point is that it admits that learning begins with the individual.

It makes possible a concentrating and compounding of experience by exposing participants to a wide selection of vital case situations. Furthermore, it does this in less time than would be required on a business job. Thus, through class discussions new conclusions are reached from the experience of others.

The basic philosophy of C.I.L. in regard to staff development is that there is no substitute for direct industrial experience. However, as already mentioned above, the extent to which people acquire supervisory abilities and skills through experience depends to a very marked degree upon the immediate superior to whom the subordinates are responsible. The *attitude* of a supervisor plays a very important part in the development of subordinates. C.I.L. experience with the case method of instruction has proved it a practical method of improving the attitude of supervisors.

The case method courses held throughout C.I.L. during the past two years have stimulated thinking and discussion about fundamental problems of supervision at all levels. They have also improved "esprit de corps" as a valuable by-product. In addition, the courses have created a better company-wide understanding of the problems and responsibilities of other departments. Thus, production men realize that sales and development people also have many complex problems; are aware of important aspects of the supervisory process such as: communication, earned authority, participation, organization, delegation, control, etc.; and many supervisors have increased their background knowledge about the supervisory process through further reading.

The use of the case method in the development of supervisors has thus already "paid off" in various ways. Its benefits will be even more apparent in the future when the junior supervisors of today assume greater responsibilities. Although not considered to be a substitute for the day-to-day development on the job, it does, however, stimulate supervisors at all levels to their important task of making possible the growth and development of their subordinates on the job.

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Is Self-Interest Our Driving Force?

Gordon Huson

The School of Banking at the University of Wisconsin is attended three years in succession by over 900 bankers from all over the U.S.A. and also from Canada. Their final year involves a course on international finance. The Business Quarterly's editor, Gordon Huson, was invited back this year to expound current European economic developments and their significance for America. The following are extracts.

BANK interest, as much as self-interest, drives our social system—although this was not always so. In Shakespeare's "Merchant of Venice", and elsewhere 500 years ago in the drama of economic history, you find the banker always the villain of the piece. In his early out-of-doors days in Italy, angry citizens at times smashed up his "banco" or "bench" and made him a "bankrupt". That did not stop him. He moved indoors — and kept a strong box and later built his modern marble halls.

But it is not only his more formal surroundings that distinguish the banker today. Up to the '30's when every country suffered the disgrace of idle men and idle acres, his role, according to economic theory, "classical economic theory", was essentially passive, bound by convention and the amount of cash, the gold reserves. The workings of the gold standard and the economic theory did not allow him much freedom — indeed, bankers were essentially accountants, not economists. In Europe, with its 600 odd millions of peoples, the depression seemed even more hopeless than in America where there was still plenty of land: there came political revolutions — Hitler; and also economic revolutions — the "General Theory of Employment, Interest and Money", published by John Maynard Keynes in 1936. This revolution against Adam Smith and the classical school of economics extended to North America. Also in 1936 Stephen Leacock, mirthful Canadian professor of economics, published his "Hellements of Hickonomics". In its finale, Adam Smith, who published his "Wealth of Nations" in 1776 and is generally understood to have started the modern science of political economy, is called up to answer for it.

Adam, Adam, Adam Smith,
  Listen what I charge you with!
    Didn't you say
      In the class one day
        That selfishness was bound to pay?
Of all your doctrine, that was the pith,
  Wasn't it, wasn't it, wasn't it, Smith?

Don't you remember your book begins
With a panegyric on making pins?
  Didn't you say that the more we made
  The bigger would be External Trade?
We sold the pins and the Foreigners had 'em,
That was the big thought, wasn't it, Adam?

And didn't you say — don't think it funny,
That the greatest thing in the world was money,
And didn't you say — now please don't shirk,
That the basis of value was human work,
  And the worker must be content with his lot
  Being worth precisely just what he got?
    Come, don't evade it,
    Long-winded Scot,
    Just whether you said it
    Or whether not? . . . .

Smith, come up from under the sod,
Tell me what did you do with God?
  You never named him, I understand,
  You called him (Book IV) an invisible hand;
  You gave him the system all geared and speeded,
  With none of his interference needed.
It wasn't worthy a man of your size.
Smith — come up and apologize.

Since the revolution in economic theory led by Keynes, the banker has been elevated to the most important role in the economic life of the country. From being an automatic servant, he has become a master — with all the responsibilities for decisions which this involves. The essential addition to economic theory born of the depression of the thirties was that a country's economy did not necessarily work automatically. On the contrary, said Keynes, the capitalist economy, when left to itself, tends towards unemployment. Keynes led the battle against such economic orthodoxy as the gold standard, propounded the fullest use of economic resources and argued that governments should spend their way out of depression, unbalancing their budgets, if businessmen would not, and

that finance should never act as a brake — that everything physically possible should be financially possible. There is no space for more than this quick caricature. The classical theory, in contrast, applying the "laws of supply and demand" and the "law of markets", as propounded by French economist J. B. Say, assumed that when prices fell, consumption would *automatically* increase and businessmen would be *automatically* tempted into production by cheaper costs: the rate of interest, the price of money *automatically* equated saving and investment.

How far we have moved from this laissez-faire viewpoint in the past 20 years! It is now accepted as an axiom that the nation's income is watched very closely by the central bank which fixes rates of interest in order to prevent fluctuations in economic activity and does not leave these to the vagaries of demand and supply. The amount of money and credit circulating are no longer automatically fixed by the central bank's gold supply but by its deliberate policy. The central bank's action — the Bank of Canada in Ottawa — dictates credit policy — determines the amount of money that flows into the economy, or, to take a metaphor from motoring, it is the banker who is now in the driver's seat and has his foot on the gas. Every banker helps in this process and has a responsibility in keeping the economy running steadily — and this is no longer the automatic action that it used to be 20 years ago. Every banker is now assumed to have a duty in this new economic theory to see that all a country's economic resources are fully employed. What principles, economic or moral, what maps has he to guide him? Should he be guided only by self-interest?

Trade, Aid or What?

Curiously enough, principles of economics and of good business, although accepted for society at home, do not apply, apparently, when dealing with the foreigner. While to control our dealings with each other we believe — or say we do — in free competition and a minimum of government interference — that was the gist of Adam Smith too — when trading with the foreigner we immediately call on our government to help us and to hinder him. Internationally, the same rules of free competition and freedom from governments do not apply, and never have done in U.S.A. because of Alexander Hamilton, nor in Germany where Friedrich List defended the "infant industry", though the British did try for a hundred years from 1832 to 1932 to apply the same rule of free trade to both domestic and foreign business.

When you turn from domestic to international trade you thus find this curious paradox, a paradox which has existed for many years, that economic theories, unlike religions, music or art, stop short at national frontiers.

The economic policy of full employment of all resources that as a result of Keynes lies behind all banking action today may be good for a country domestically, but what about its international effects? With his "classical economic theory", Adam Smith advocated complete freedom to buy and sell in the best markets — freedom from all government interference, no tariffs, no quotas, no differential exchange rates, no inconvertible currencies as advocated and practiced by his predecessors — the mercantilists. Assuming that Adam Smith's theories were dominant in international economic theory until 20 years ago, have they been changed as drastically as domestic theory by the events of the past 20 years? The answer is that the so-called classical theory of international trade collapsed between the wars and died during the depression. Yet there are some working today, as we shall see, to bring it back to life.

That we still do not quite know where we are going internationally is shown by the book just published by Willard L. Thorpe, former U.S. Assistant Secretary of State for economic affairs — entitled "Trade, Aid or What?" Even eight weeks of discussions in 1953 by 50 of the world's leading economic experts at the Merrill Centre, Long Island, still ended with a huge question mark.

On the one hand, the United States' foreign economic policy during the past 20 years has been primarily a strong effort to turn the clock back 100 years to the period when Adam Smith's theories were applied internationally — but not by the United States — to the period of "International Free Trade". Behind the pushing, by the late Cordell Hull and his supporters such as Will Clayton, Willard Thorpe and others, of the Reciprocal Trade Agreements Act, the International Trade Organization (I.T.O.) and the General Agreement on Trade and Tariffs (G.A.T.T.) was essentially the conviction that what was needed was less government interference, fewer tariffs, fewer quotas, less currency control, no subsidies, nor discrimination — in other words less mercantilism, and more of Adam Smith's laissez-faire freedom.

This American School, which we could call the "Back to Adam" School, found many supporters in other countries, especially in Canada. The older European countries paid homage and lip service but continued meanwhile with their quotas in France, their currency control in Britain and their tariffs everywhere. We shall come back to Europe later.

Meanwhile, in contrast, in North America for domestic reasons, ruled the full employment policy of Keynes. During the war years, for example, both U.S.A. and Canada built up a great farm industry to feed their allies, generously gave away its produce under lend-lease and mutual aid. Were the policies devised in wartime to give full agricultural employment changed with the advent of peace? Of course not — there was no effort to follow Adam Smith and allow price to equalize demand and supply. The agricultural surplus had to go on being produced because

there had to be full employment of resources. At first it was given through U.N.R.R.A., primarily to the Iron Curtain countries; then through the Marshall Plan to Western Europe; then it went into stocks both in U.S.A. and Canada. The U.S. wheat surplus, if put into boxcars, would stretch from Los Angeles to New York and back to St. Louis. U.S. stocks of agricultural products are valued at over $7 billion, cost over $1 million a day to store. Relatively it is equally bad in Canada; it would have been disastrous if last year's crop had not been a failure!

Is international trade the solution to the problem? Many advocate "Let's dump the stuff on the foreigner." But under G.A.T.T. we must not destroy world markets by selling abroad at a price lower than we sell at home — that is dumping. Can we give it away to our allies? No — that will destroy the markets of our other allies (U.S. sales of subsidized wheat to Japan have lost Canada her second best customer). The only solution seems to be to give it away to our enemies. What a paradox! You and I pay twice, higher prices as consumers, higher taxes as taxpayers, so that our potential enemies behind the Iron Curtain can buy it more cheaply than you and I. In the first six months of 1955 the U.S. has given away 52 million bushels of wheat alone at a cost to the U.S. taxpayer of $75 million. Canada's bread and butter deals have been similar, but admittedly on a smaller scale. To Poland 12 months' credit has been granted by the Canadian government for 85% of the $20 million price of 9¼ million bushels of Grade V wheat; the Czechs were sold 314,000 lbs. of butter for 39 cents — the Canadian consumer pays over 60 cents.

In 1954, at the expense of the Canadian taxpayer, all the remaining pork of the 98 million lbs. canned in 1952 when hoof and mouth disease prevented shipments to U.S.A., were shipped to U.S.S.R.

Is this trade, aid or what? Is it self-interest? Is it economics? Certainly it is NOT economical.

Great Britain's Modern King Canute

Can Europe, where Britain has so often acted as economic guinea-pig, help solve the paradox between domestic and foreign economic policy in America? More detailed studies of the economies of Britain, France and Germany may give some significant pointers.

In Britain, the home of John Maynard Keynes, his policy of full employment has been more fully followed than in any other country, and the banker is really dominant. Unemployment since the war has seldom exceeded 1% and in July was down to 185,000, only 0.9% of the total number of employees. Yet regularly in 1947, 1949, 1951, and now in 1955 the economy has been threatened with collapse — in each case due to inflation, to bankers being more liberal with their advances and less

discouraging by raising interest rates than they should have been. As a result you have the paradox in Britain today that a country built on coal seams and with a vast accumulation of savings is having to import coals to Newcastle and the bankers charge higher interest rates for loans than in almost any other Western country.

The British Chancellor of the Exchequer, R. A. Butler, told the House of Commons in July that to supplement high interest rates he was having to use exhortation to curb the amount of money in circulation, that he had written to the Governor of the Bank of England asking him to bring to the notice of commercial banks his statement on the need for credit restriction. The Chancellor had "no doubt that the banks will agree, that it is their duty to reduce the amount of bank credit below what they would be glad to give in less difficult times. . . . It is for the banks to decide what steps they must take to make this policy effective. . . . I look for a positive and significant reduction . . . over the next few months."

In addition to exhorting banks, he exhorted both business and nationalized industries. "Business firms", he said, "should endeavour to slow down investment not of the greatest national urgency . . . all those embarking on investment projects should consider whether they could not postpone their initiation, irrespective of whether they finance them from their own resources or by borrowing . . ."

With regard to investment by the government and by the government's nationalized industries, he went on "My statement does not affect any programme already announced, unless a nationalized industry or a local authority can, with reason and without doing any harm, slow it up, so that we shall not be trying to do too much."

To restrict John Q. Public's spending spree on credit, he announced the raising of minimum initial deposits from 15% to 33 1/3% of the cash price. Again, to use his own words: "Our object is not to depress the sales of particular goods because they are regarded as less essential or more readily exportable, but to relieve the pressure on home demand generally by asking the consumer to use more of his own income and less borrowed money when he buys the goods of his choice."

In case you and others should have doubts about a country where the economic system is based on exhortation, and should sell sterling short, expecting a further devaluation, "King Canute" Butler continued, "There is no doubt about the policy of the government in relation to exchange value of the pound sterling and I can give this policy in one sentence. It has been, and will continue to be, the maintenance of the exchange parity of $2.80 to the £, either in existing circumstances, or when sterling is convertible."

Cracks in the British Boom

For lack of economic statistics it is often difficult to see the U.K. economy in perspective as a competing member of the European economic scene. The three "Economic Bulletins" now published each year by the U.N. Economic Commission for Europe help to remedy this.

The latest bulletin suggests that the most serious danger for Britain is that a very high level of employment with its consequent constant pressure on wages may make it increasingly difficult to maintain stable selling prices. It warns that even a moderate increase in export prices may entail a further deterioration in the British balance of payments.

Many firms already "have probably passed the optimum level of utilization of capacity", yet the chancellor has just exhorted the bankers to check and curtail new business investment!

The same E.C.E. reports on Western Germany. Last year German output per man-hour rose considerably more than twice the British—a rise of 6.5% compared with Britain's 2.5%, yet during the same period British real hourly earnings rose 2.9% against an increase in Germany of only 2%.

The British Moral

Like the donkey, either enticed by carrot or driven by stick, man is by nature a lazy animal. To make him work, you must hire, threaten to fire, or inspire him. In wartime, economies can be run by inspiration and exhortation, but it has yet to prove workable in peace.

If Keynsian theory and the bankers helped cure the underemployment of the depression years, the pendulum has now swung too far to provide, not full but overemployment, in which wages, the cost of the carrots, and prices all tend to rise, gradually perhaps, but persistently. No one benefits from a continuing erosion in the value of money. Yet the British bankers have inverted the Keynsian dictum that everything physically possible should be financially possible and propounded, with disastrous results, that everything financially possible should be physically possible — a formula for perpetual inflation. Keynes, let it be stressed, would never have agreed to such inversion and perversion.

Domestic inflation raises further problems — especially in international trade. Keeping a country's cost and prices structure in step with the rest of the world used to be ensured by obedience to an impersonal external standard, namely gold. "It provided a set of signals which were heeded by the principal nations of the world," writes Paul Bareau in the July F.B.I. Review. "Their reflex actions to international gold movements created an automatic self-balancing mechanism. It may have acted harshly and wastefully in some respects; but it maintained

that relative stability of prices, together with that absolute stability of exchanges which provided the setting for a healhly growth of world trade. But gold has been dethroned and a variegated standard compounded of full employment, social security and abhorrence of deflation set up in its stead. If it condemns us to persistent inflation, it is unlikely that all countries will be creeping or trotting at the same pace.

"There is, therefore, some case for flexibility in exchange rates if, indeed, this inflationary prospect lies before us. This particular issue was discussed in highly topical and practical terms at the last meeting of the O.E.E.C. Ministerial Council in Paris. The British representatives, led by the Chancellor of the Exchequer, conceive of convertibility of sterling in terms of a rate of exchange more flexible than that which now obtains.

"This discussion of the pros and cons of exchange flexibility raises the most basic issue of all those involved in the problem of persistent inflation. It is whether Britain and other countries should passively accept the inevitability of "inflation for ever". It is true that many brave words have been spoken about the need to counter the forces of inflation in Britain. But the real issue—that of over-full employment, of excessive strain on the economy—has not really been faced and was notoriously evaded by the two principal parties at the general election last May.

"There is need for courage in tackling this problem and that courage is more likely to be forthcoming if there is some external standard, such as a stable rate of exchange, which will act as a warning signal and to which reference can be made in defending the honesty and integrity of money. The primrose path of inflation is all too easy to follow and a flexible exchange rate, unless used with the greatest technical skill and restraint, would be but one more temptation to the Government and politicians to avoid facing the issue of inflation, to spend their way out of any difficulty in which they may find themselves."

Germany

In contrast to Britain, E.C.E. reports about Germany: "Increases in earnings in Western Germany lagged so much behind increases in output per man hour during 1954 that, given the stability of both industrial and non-industrial prices, the competitive position must have improved considerably." The consequences — Burrough's Calculating Machines are marketing in North America output from their German factory and Germany's Volkswagen buys Studebaker's factory in New Brunswick, New Jersey. That is why German exports both to $ countries and the rest of the world have gone ahead twice as fast as the British in the past year. German car exports are now one and a half times those of U.S.A.

Unemployment in Germany, lower than at any time since the war, amounted at the beginning of August to 567,000, roughly 3% of the total persons employed, half the percentage of a year ago. Since 1949, with the flow of people from Eastern Germany, workers have been added to the German labour force four or five times the rate of Britain or the United States. Germany is recruiting Italians, although there are still two or three people unemployed for every job vacant, compared with two or three jobs for every man unemployed in Britain.

There have been no strikes for a year. Prices have been kept down by a big increase in imports. Germans have recently given another dose of liberalization to their dollar trade and over 65% of dollar goods are now free from quota restrictions. The Federal Treasury has lost nothing through the generous tax cuts granted at the beginning of the year. The rise in the gross national product has outstripped the concessions and cries are now heard for further cuts. The Germans are admittedly enjoying butter not guns; they have still only to pay for defence the modest sums which the occupation powers have been demanding and are saved not only the cost of an army but also its expensive armaments.

Lack of capital is indeed Germany's main weakness. Who provides it—the bankers, of course. Instead of consolidating their bank debts and raising equity capital, firms prefer to rely on the banks. Even if they pay 7%—and some pay banks as much as 12%—it is still cheaper than the 8½% which it costs to secure capital from the public.

The solution to this problem and also the anti-inflationary "bull point" in Germany is the continued rise in savings, 30% higher than a year ago—the cause and effect of the relative stability in prices. Prices are only 3 points higher than a year ago; consumer goods and food costs no more and less than in 1953. The cost of living is the same as in 1948.

Here is a flourishing economy—but no spiral of prices, none of the evils of uncontrolled boom. Yet the government has been relaxing, not increasing controls, liberalizing foreign trade, not clamping on quotas or demanding tariffs. Germany, where Hitler introduced rearmament to cure unemployment, is now enjoying full employment without any armament production at all.

France

From France, too, there is good news, even from such severe critics as Mendès-France. In the past 12 months there has been rapid expansion without inflation; the former huge deficit on foreign trade has been turned into a surplus; the free price of gold has fallen because the hoarders have been selling and even repatriating capital sent abroad. Confidence is restored in a country suffering from an inferiority complex since 1871.

Last year, industrial output was 40% higher than before the war, 20% above the record 1929. France's foreign trade gap disappeared though France also liberalized, at the recommendation of O.E.E.C., quantitative restrictions on imports. The Bank of France's President Baumgartner ended his annual review with a plan for more saving. Mendès-France is more outspoken. He sees in France an insufficient level of investment. During the last 2 years, fixed investment rose by less than 10%, compared with 17% in Britain and 28% in Germany. Even this 10% figure for France is inflated by housing figures; industrial investment has increased only 3% since 1952. France's recovery has so far been based only on unused resources.

Excess production of wine, however, may well cause headaches—not only for politicians. For charity begins at home in France. There is to be no special cut-rate for foreigners but a free litre a week to the old, invalids and others "economically weak". The troops too have had their ration raised.

Sunfed's Solution to Corn-Fed Chaos

Although there are morals to be drawn from Britain, Germany and France, they do not provide the solution to the paradox of North American domestic and foreign economic policies and to the resulting chaos of commodity surpluses. Said R. A. Butler—"Trade, not Aid"; said Eugene Black, President of the International Bank—"We have passed the crest of the foreign aid programme. Now that exporters can look less and less to this kind of government financing, it is urgent that we put our trade on a sound and self-sustaining basis . . ."

What is the solution? There is one, but few are ready to accept it. They ridicule it, just as Victorians, brought up on Adam Smith, deplored income tax and any taxation tending to equalize incomes. To them, enlightened self-interest should *automatically* run the economy. To such a Rip Van Winkle awaking today, our domestic economy, with its graduated income tax, its measures to protect those who lose their incomes through sickness, unemployment or death, its penalization of the rich for the benefit of the poor, its bankers able to expand and contract the amount of money at will, would be an economic nightmare.

Why should economic principles stop short at frontiers? I suggest that within 50 years, despite all the vituperations against "bleeding heart", "international", "scatterbrained", "socialist nonsense" — and all the other epithets, international equalization of incomes will in fact be practised.

All the publicity given to President Eisenhower's bold offer at Geneva eclipsed French Premier Faure's suggestion of development

funds for backward countries, financed by the cutbacks in armament expenditures by countries on both sides of the Iron Curtain. Yet Faure's plan was not novel—it is the idea behind the U.N. Technical Assistance Programme, which has been operating for several years; it is the idea behind SUNFED—Special United Nations Fund for Economic Development—discussed by the U.N. Economic and Social Council at Geneva in preparation for its discussion by the U.N. Assembly in New York this fall. The idea that rich countries should give of their surplus to develop backward countries has been, furthermore, already practiced both by Canada and U.S.A. through lend-lease, U.N.R.R.A., Marshall Aid, by the British Commonwealth by its Colombo Plan of assistance to the countries in South East Asia; and by the United Nations World Bank and by U.N. technical assistance administration under its Canadian director Hugh Keenleyside.

The expansion of these international plans provides a solution to the paradox, the need for full employment at home and the resulting excesses of production which we are at present giving only to our enemies. Invested under international supervision in economic development of backward countries, where otherwise Marxian doctrine has fertile soil for growth, the surpluses of the rich countries will do double duty.

As Barbara Ward wrote in "Faith and Freedom", "The relationship today between the privileged nations of the West and the underdeveloped areas of the world offers a startling analogy with the conditions which prevailed within early industrial society when Marx and Engels wrote their indictments and predicted the ruin that lay ahead."

Such international assistance is the logical development to the in-international field of thinking which we regard as axiomatic for our own domestic economy, where we tax the rich more than the poor and help those unable to compete through sickness, death or other disaster. Why should these policies and actions stop at the national boundaries? Logically, if they are good at home, they are also good abroad. And who will supervise and keep us all in step — the banker, of course, the U.N. International Bank for Rehabilitation and Development, already the most successful financially of all the U.N. organizations.

Hugh Mackenzie of Labatt's

Arden Spence

This is the second of the series of profiles of Canada's leading businessmen, written by undergraduates of the Department of Journalism at the University of Western Ontario. Hugh Mackenzie combines a successful business career with extensive outside activities. Not least noteworthy are his association with the Management Training Course and his contribution to The Business Quarterly of 1945 of an article on public relations in post-war Canada.

HUGH MACKENZIE is the first businessman in a family who have been teachers and clergymen for generations. But he considers business a profession too, and as executive vice-president of John Labatt Limited he is carrying on the family tradition of service.

This well-known London executive looks like a rugged outdoorsman with his ruddy Scottish complexion and firm, jaunty step. He has a quick smile and dancing blue-gray eyes, but his expression is serious when he discusses the obligations of business.

"The average man today is more influenced by his boss than his parson. The trouble is that management in so many cases still doesn't know it," says Mr. Mackenzie. "I wish employers would realize this responsibility and deal with their employees accordingly. Ministers give goals most men can never reach, so they give up. Employers should set for their company and for their men, attainable objectives raising their sight from time to time." His tone conveys a sense of urgency.

Business Rights and Responsibilities

Labatt's is renowned not only across Canada but also across the border for its excellent labour-management relations and few have done more than Mr. Mackenzie to foster them. Employees say he is amazingly approachable and interested in each one. Anyone with a personal or business problem finds him an excellent listener willing and anxious to give helpful advice if requested.

Mr. Mackenzie says he believes that the employee's home life has a great bearing on his attitude toward his work. He has found that most instances of inefficiency can be traced back to some family problem or unhappiness. This seems to be particularly true of unmarried women under 30 living at home. "Two generations shouldn't live under the

same roof once the children are in their twenties. I always suggest that the girls get a place of their own because their emotional difficulties seem to derive from enveloping parents," he says. But Mr. Mackenzie does not do all the advising. Labatt's employs two staff nurses and a part-time doctor, and the head of the personnel department takes a special interest in consulting.

However, Mr. Mackenzie also believes that business has rights as well as responsibilities. "No company should be ashamed to make a profit," he says. "I don't like socialism or communism, and to me the only answer is to teach the businessman enlightened self-interest in directing policies and operations. He can't help his country if his business isn't making any money. And there is no kindness in socialism, you know. The very people who complain most about Labatt's come to us when they need money. Few executives are as self-centred and greedy as the public believes."

Family Influence

Mr. Mackenzie has not stumbled on his principles by accident. He learned them from his childhood idol, his own father. Even today he points to a photograph of him with something very close to a hero-worship not yet outgrown. Michael Alexander Mackenzie went to the Anglican Church of Canada the day he received his F.I.A. degree and said, "I'm a pension expert now and starting today I would like to do all the pension work for the Church in Canada free of charge." And he did till he was 83.

Michael Mackenzie was a professor at the University of Toronto, one of Canada's outstanding mathematicians who has influenced many prominent Canadians, including his son.

Hugh Mackenzie is a fourth generation Canadian, born in 1901 in Toronto. His paternal ancestors give him every right to wear the Mackenzie garb—as he does on rare occasions. Londoners love to see him in Highland evening dress with every accessory exactly right. But he has often been told that he is more Irish than Scottish. No wonder: his mother, Maud Elizabeth Niven was born in Belfast, a niece of the late Dr. James Niven of London, Ontario. He has some French blood too.

Although he was born in Toronto, Mr. Mackenzie's family is one of the oldest in London and he himself has lived there since 1930 when he joined Labatt's. His father's mother was Helen Boomer, the oldest daughter of a dean of Huron, and part of old Huron College was his great grandfather's home from 1872 to 1888.

Young Hugh was sent to private schools which he feels give the best education simply because in them students participate in all acti-

vities and are made to work harder. He went to Lakefield Preparatory School and Trinity College School. Afterwards at the Royal Military College in Kingston he graduated as a Battalion Sergeant-Major and was awarded the Sword of Honour.

"It's No Fun Unless You're Playing"

Mr. Mackenzie's athletic appearance is not at all deceiving. At R.M.C. in 1920, he was on the team that made the Junior O.H.A. finals, and football fans will remember him as the star quarterback of the Dominion Champion team of the following year, the Toronto Argonaut Football Club. Today, he seldom watches any games. "It's no fun unless you're playing in it," he says.

Not surprisingly, his favorite sport these days is skiing. Just last spring he again spent a happy week in the Laurentians after being away from this sport for three years because of illness.

Mr. Mackenzie received his chartered accountant's degree at the age of 27 with the firm of Clarkson, Gordon, Dilworth and Nash in Toronto while still active in football. Once he tried his intermediate exams in the morning and played in an Argo final the afternoon of the same day.

In 1928, after a year with the Bank of Montreal, he was made comptroller of the Lindsley Mining Interests. He went to Labatt's in 1930 as comptroller and by 1935 was their sales manager as well. Two years later he was promoted to general manager.

During the last war Mr. Mackenzie for over a year was assistant to Donald Gordon, Chairman of the Wartime Prices and Trade Board. This appointment was without remuneration, though he was granted a leave of absence by Labatt's. He headed a special division which tried to eliminate wasteful practices and duplication of services in the whole field of civilian production and distribution. He worked closely with the board's administrators and most Canadian businesses. His resignation was accepted by the Board because Labatt's needed him. Immediately on his return in 1943, he was appointed a vice-president of the company.

Admiral of the Flagship Fleet

To save time on his frequent and lengthy business trips across and out of the country, he began as early as 1932 to fly. By 1942 he ranked among the top five air travellers in Canada. In one year he flew more than 27,000 miles from coast to coast and he estimates that he saves half a year in every ten by taking planes. He actually made his first trip in the air in 1919 while still a student at R.M.C. On that occasion he was thoroughly ill and didn't fly again till he had to for business reasons.

Mr. Mackenzie admits that he is still nervous and is always relieved when the plane lands. He has never piloted a plane himself, though in the early days when he chartered a private plane, the pilot at Crumlin would let him take over the controls when they got up in the air where they could not bump into anyone. But though he jokes about his flying, Mr. Mackenzie was made an admiral of the flagship fleet in American Airlines in 1941. This is a distinction accorded to few Canadians and given only to passengers who have flown more than 100,000 miles in Canada and the United States. Since the Trans-Canada Airlines began flights to and from London in 1941, Mr. Mackenzie has made more trips from London than any other man.

He is convinced that ideally, anyone intending to go into business should graduate from an honours arts course, work for five or six years and then take a graduate administration course in business. Then by the time he is 25 or 26 he has some understanding of the business world and a broad liberal arts background on which to draw. He himself is proof of the value of broad interests.

"Matter of Osmosis"

Climbing to the top almost overnight has not taken away any of the freshness and enthusiasm Mr. Mackenzie has for virtually everybody and everything. One of his chief interests is art, which is "purely a matter of osmosis," he says. Both his wife and his son Hugh Jr. are professionally trained and practising artists. Though he loves oils best, particularly when done by the French impressionists he personally feels that his wife's water colors are superb—and so do many other critics.

If you ask him about music he sighs deeply and reverently picks up his own personal collection of records. As he names some of them, maybe "Avalon", "Whispering", "Dardanella", or "Cecelia", he mutters "There's been no good music composed since 1935. Have you ever tried dancing to Oklahoma?" He rates each piece of music on its rhythm and adaptability to dancing. It is still his favorite pastime and his specialty is the Highland Fling. He learned it back at R.M.C. where he used to do it every morning with his fellow recruits as a compulsory exercise. What about classical music? "Well," he says slowly, "I can take it if I'm backed into a corner with it," and then with a big grin, "but you can't dance to opera!"

Mr. Mackenzie listens to music in a cozy knotty pine study in his home. The gracious Mackenzie residence is a large, white house in suburban London. Paintings, including many done by Mrs. Mackenzie, hang in profusion throughout and there is a "family room" where a newcomer can trace the growth of each member of their family. One painting Mr. Mackenzie is especially proud of is the large one hanging over the fireplace in his study. It's of a good-looking young man with

shocking blond hair and a friendly, confident smile. He explains "It's me at 26, an expectant father for the first time."

He married Alice Sawtelle in the Little Church Around the Corner in New York City in 1925. Their three children are married. Their elder son Michael finished the post graduate business course at Harvard this spring. Hugh Jr. is a professional artist in Toronto. Their only daughter Landon is married to Lester Pearson's son Geoffrey. They are living at the Canadian Embassy in Paris and have a new baby daughter. This second grandchild was the special reason for the Hugh Mackenzies' trip to Europe this summer.

And it is in France that Mr. Mackenzie likes wearing his garb best. "They'll let me in anywhere there and never expect tips!" he says with a wink.

What are Managers Made of?

In Britain, an investigation of managers' qualifications showed: 80% had no professional qualifications at all (70% among top management); only 3% went to leading "public schools" (10% among top management); nearly 20% had primary school education only; only a third had gone to high school; only 20% to a university (30% among top management).

There percentages are based on researches of the Acton Society Trust, financed through the Department of Scientific and Industrial Research, into 3,300 managers at 30 manufacturing companies, each employing more than 10,000 workers. The managers' average age was 46 — only 14 were over 65 and 153 under 30. Over 50% came up from the bottom, some 20% starting as manual workers, 30% as junior clerks. 40% had spent all their working lives with one company. Most promotion is made from within the firm.

Electronics Solve Office Drudgery

"Offices are at present staffed by human beings who are on the one hand intelligent and on the other hand potentially disobedient, refractory and anarchic. Office management consists of restraining the latter characteristics so as to exploit the former in terms of a system. Machines are the exact opposite of humans. They are blindly obedient where human beings are not, and utterly stupid in situations where humans are intelligent. To restrain the latter so as to exploit the former needs a completely different system to that required for the organization of humans," writes the Rt. Hon. The Earl of Halsbury in the introduction to "The Scope for Electronic Computers in the Office" published by the Office Management Association, London, England.

Tomorrow's Water Supply—Today's Problem

A. E. Berry

During a summer of record-breaking weather, of floods in some parts and in others of maximum heat and sunshine and minimum rainfall, and of consequent dry streams, irrigation breakdowns and water-rationing, water supply has been causing constant headaches and headlines. In Canada's march of progress many assets achieve notoriety: mines, agriculture, forests, power, industry, and an energetic population, each singularly essential for success. Yet all too frequently our other natural resource is given only superficial thought in planning for the future. That is water. Here Ontario's water expert, Dr. Berry, reviews a policy for the future.

IN this period of Canada's accelerated advance, the growth of an individual city or other municipality depends largely on industrial expansion. The location of new industries or the enlargement of existing plants brings new workers and their families. These, in turn, mean new civic improvements and the development of the entire area. Wherever industry offers employment, housing springs up to form new towns or satellite areas. These growths are not evenly distributed but are concentrated wherever the necessary facilities and attractions are to be found.

A notable illustration of this relationship between industry and population growth is to be found in Ontario, the leading manufacturing province with over 54% of Canada's capital investment in manufacturing, 50% of the gross value of manufacturing production and over 50% of manufacturing salaries and wages. Ontario's population has grown by almost 1,000,000 or 23% since 1946, and it is predicted that it will reach nearly 8,500,000 by 1975.

Water for Industry

How much water will industries require in the future? While it is not possible to predict the industries of the future, we do know the amount of water required to produce today a given unit of any manufactured product, and also that industry could reduce its demands for water by re-using it. In addition, much can be accomplished by the treatment of used water so that it can be re-used by others down stream.

Some industrial processes require vast amounts of water even when practising every possible economy. For example, the following are the approximate amounts of water needed to produce:

Sulphate pulp (1 ton) — 60,000 gal.
Aviation gasoline (1,000 bbl.) — 850,000 gal.
Rolled steel (1 ton) — 90,000 gal.
Canned tomatoes (1 bu.) — 50 gal.
Steam generation of power (1,000 kwh) — 65,000 gal.
Viscose rayon (1 ton) — 170,000 gal.
Woolen cloth (1,000 yds.) — 33,000 gal.

Water for Domestic Use

Domestic consumption must take priority over all other water needs. The protection of health, the well-being of the public, and the enjoyment of our high standard of living would be impossible without adequate water supplies. The construction of municipal pumping and purification systems has been a continuous struggle ever since people began to congregate into communities. A town without a public water supply will not attract either industry or family, and water works should be the first public utility a growing community should seek. Yet all too many small centres have been unable to secure either an adequate or suitable supply.

The demand for water in the home is growing steadily. Two factors are responsible: first, the steadily rising population connected to the water mains, and secondly the increasing per capita use of water. Modern living finds ever more uses for water in the home, more appliances, more lawn watering, better sanitation, more baths, and laundry operations. All are important for pleasant living. In Canada use of water has risen between 1940 and 1953 from an average of 108 to 119 gallons per person per day. Municipalities are thus thirsty bodies. In Ontario they need more than 150 billion gallons of water a year — an increase of over 60 billion gallons since 1940.

Over 86% comes from surface sources, 14% from underground wells. This water must be available every minute of the day and night in whatever quantity or rate is required.

For domestic use water must be safe against all water-borne diseases, and acceptable physically and chemically. Fortunately water purification processes have mastered disease outbreaks. Other factors in quality are often more difficult. A warm, muddy stream does not make a good source. Similarly, wastes from some industries are extremely difficult to treat to ensure freedom from taste or other defects. However thoroughly sewage and wastes are treated, residual effects may persist in the receiving stream for long distances. As a country grows the practice of discharging wastes into and taking domestic water from the same stream becomes more and more undesirable.

Water for the Farms

The influx of population to urban centres and the gradual encroachment on farm lands have increased the need for a more intensive and efficient agriculture. Mechanization of methods has advanced to meet this challenge, but crops still depend on water. Droughts can defeat the best efforts of man and machines. More and more, irrigation is being recognized as the means to increase crop yields per acre and improve livestock. Yet irrigation requires large amounts of water, depending on the climate and the locality. It may need as much as 3,100 gallons of water to produce a bushel of corn, 3,600 gallons for a bushel of oats, and 140,000 gallons for a ton of cured alfalfa hay. Tobacco too can use large amounts of supplemental water.

Water Problems in Canada

How can the need for water in industry, home and farm be best met in Canada? Much of the development in the past has taken place adjacent to existing supplies of water, but this cannot continue indefinitely. Distribution of industry and population must spread inland.

A bird's eye view of Canada reveals that on the west coast water supplies are fairly abundant, and with adequate planning water can be transported to meet all needs. A good example of this is the fine work done by the Greater Vancouver Water District in piping water to Vancouver and adjacent communities up to 36 miles. Greater difficulties are encountered in the prairie provinces where thirsty communities must look farther afield for water for domestic and industrial consumption as well as for irrigation. Two activities are worthy of note: one, the programme of the Prairie Farm Rehabilitation Administration to develop water supplies for agricultural use; the other is the recent construction of a pipe line to bring lake water to Regina, a distance of 35 miles.

In Manitoba, as far back as 1913, a pipe line 97 miles long was built to bring lake water to Winnipeg and adjacent communities. This joint project of the Greater Winnipeg Water District supplies 10½ billion gallons a year.

In the Maritimes and in Quebec Province, water is generally plentiful, but in Ontario many problems are arising already. These are related chiefly to distribution rather than to lack of quantity. The most critical situation occurs in Southern Ontario where a combination of circumstances calls for immediate and intelligent planning.

Southern Ontario

Southern Ontario has the distinct advantage of proximity to the Great Lakes system, the largest body of fresh water in the world. Through providing the means of transport in early days and later cheap

electric power, the Great Lakes have meant much to its growth and well being. Houses and industry located along these watercourses had no problems of water supply.

More recently, they have attracted new industries. In selecting industrial sites in recent years in Southern Ontario, many of the major manufacturing plants which are large users of water have chosen places where they could readily obtain good quality water and where they could dispose of their wastes without too many complications or high cost. Examples of this are seen in the Sarnia area, the St. Lawrence River area, and all along the chain of Great Lakes. The future of this whole area has tremendous potentialities, because of the great advantage it possesses in having access to this almost limitless water supply. This fact is recognized on both sides of the boundary.

Despite the growing demand for water in the large metropolitan areas of Toronto, Hamilton and Windsor, there are no great engineering problems involved, and pipe lines can readily be built to deliver water pumped from the lake or river to meet all demands. The concentration of population in these areas thus poses no special problem and water can still be supplied at a low cost.

But points farther inland also require opportunities for development in keeping with those on the lakes. The most critical area for water supply in Ontario is in the southwestern part where the two major rivers, the Thames and the Grand, drain a large section of the country. Both have been subject to extensive flooding and both have very meagre flows in dry periods. The only storage basin on the Thames is Fanshawe Lake at London. Belwood Lake on the Grand has been in use for several years and additional storage is under construction. These measures are intended to control and regulate the flow.

These two rivers are used as sources of public water only in three towns, Chatham, Brantford and Dunnville. Consideration is being given to their use at some other places, but at Dunnville a study has been made for bringing in water from the lake.

Why has such limited use been made of these rivers for public water supplies? As already mentioned, both are subject to wide fluctuations in flow between summer and winter. More important reasons are that their waters are warm in the summer, possess taste, contain algae, and are mixed with sewage and industrial wastes. These streams serve as the outlet for the sewage and other wastes from all these communities, and even though modern treatment of the wastes is applied there is still popular objection to the water.

Communities located near neither Thames nor Grand must seek water either from underground wells or from smaller streams. Wells have been used extensively, but these are often uncertain and restricted

in capacity. In many centres the water is so limited or of such poor quality that it offers no attraction to industry or to growth in population. Even if some centres are able to meet their present water requirements, they can hardly expect to share in the growth promised for Southern Ontario.

So far, however, these water supplies have been flowing chiefly into the factory or home, but now agricultural needs are increasing rapidly. This part of Ontario is rich agricultural land which justifies the most intensive farming methods. Water is needed in the dry season. At that time the streams are lowest, and many dried up entirely before the great increase of recent years in irrigation systems for farms. There is not sufficient water for agricultural use.

In summary, it may be said that the water supply situation in Southwestern Ontario for all three major uses is entirely unsatisfactory. Some areas have critical conditions now, others will experience them soon unless steps are taken to forestall them. Water works require planning well in advance of needs, particularly in an area where population and industry are growing so rapidly. Construction alone takes time, but even more is taken to develop these projects to the point where construction can begin. This problem warrants the most intensive study, and public recognition, and a willingness and desire to find a solution.

What Is the Answer?

The objective for this part of Ontario, as indeed for any place, should be a supply of water of suitable quality and quantity to attract development. There is no shortage of water, even though nature has not provided lakes and reservoirs for all inland communities. In Ontario rainfall produces 168,000 billion gallons in a year. If used only once it would far exceed all water pumped through public systems and for much of industry as well. But water is used over and over many times in a year. Water does not diminish; there is the same amount today as there was years ago and as there will be in the future. What we must do is to learn to use it wisely.

Ontario is fortunate in its annual rainfall, which averages 35 inches in Southern Ontario. This is the primary source of all water supply, but it must be stored for use when required. This can be done either underground or on the surface in streams and lakes. Our problem is either to provide storage basins close at hand or to bring the water from the storage provided by nature. Which is the most economical plan?

Sources of Supply

Underground water has the advantage of being cool and safe from bacterial pollution. It is usually cheaper for the small community. In spite of these factors in its favour its use is small in comparison with

surface waters. The quantity is uncertain; it may have a chemical composition which requires adjustment, or it may not be possible to treat, e.g. where salt is present. Where a municipality must go farther and farther afield to develop wells the cost for exploration and for connecting pipe lines may be quite high. That reliance on wells is not good practice has been proved by the three communities, Harrow, Essex and Dresden, but many others have experienced similar difficulties and can offer no attraction for industry and population.

Of the conservation measures through storage dams, both Belwood Lake on the Grand River and Fanshawe Lake on the Thames River provide storage for substantial quantities of water which can be used during the dry seasons. Belwood Lake is upstream from the urban communities which require its water. Storage of water in a reservoir produces large amounts of plankton or vegetable growths which deteriorate the water's taste and cause purification difficulties. Storage basins also tend to silt up unless land erosion is carefully controlled, thus reducing the volume of storage. Water from Belwood Lake must be distributed either through the Grand River or through a closed pipe line. If the former method is used it will be mixed with the sewage and industrial wastes of each community, so to avoid this completely it is preferable to use a closed pipe line.

In contrast, Fanshawe Lake is downstream from communities whose sewage and other wastes reach the river. Natural purification in a stream can do much, but is hardly sufficient to make water fully acceptable for all domestic and other uses, and would not the water consumer prefer to pay something more for a supply of unquestioned quality?

Recharging underground wells through seepage from surface streams has proved successful in some places, but depends on the soil strata. So far it has not been used much in Ontario.

The third possible source of supply would be the Great Lakes themselves. Here a virtually unlimited supply is available. The outflow through the St. Lawrence River from this system in 28 hours is enough to supply all the public water works systems in Ontario for a whole year. As a result of the great volume and dilution of wastes this water shows no effects of pollution. The quality is suitable for all purposes if intake pipes are located in properly selected places.

Pipe lines from the Great Lakes can be built to deliver any quantity of water anywhere in these parts of the province. The distance of any point in Southwestern Ontario from this source is not excessive. Winnipeg brings water nearly 100 miles, Southern California municipalities 242 miles, Rochester 26 miles, Philadelphia 26 miles, Bay City and Saginaw, Michigan 80 miles, Petrolia 12 miles.

The Correct Solution?

These available water sources for Southwestern Ontario offer a choice. The welfare of the country requires that this selection be the best one, not only for the immediate future but for the years ahead. The choice must take into account water quality, cost, the use of the water, and all other related factors. The quality of water required for different uses varies. Irrigation does not need the same quality as domestic consumption. Thus it may be possible to use for agriculture the existing streams, supplemented as may be necessary, while industry and housing get water piped from elsewhere.

When a problem involves many different communities and interests it can only be solved by joint co-operative efforts. The first step is to recognize the problem and to study the facts. This has been done. The next step is to decide the right solution. The Premier of Ontario, the Honourable Leslie M. Frost, has appointed a five man committee to decide precisely this. Its terms of reference are wide. The committee is asked to recommend a policy for water resources of the province, including such matters as legislation, finance, procedures and all related practices. The committee is under the chairmanship of A. M. Snider of Waterloo, and the other members are B. L. Bedford, W. D. Conklin, Dr. C. H. Reason and J. A. Vance.

Water supply is a first necessity for our very existence. If we are to develop and prosper this resource must be utilized to the fullest extent and with the greatest foresight. Southwestern Ontario provides an example of the need for concerted action to distribute our potentially abundant water supply to where it is urgently needed. As said philosopher Nietsche, "It is our future which lays down the law of our today."

The Happy Statistician

Although economics is "the dismal science", all too frequently statistics are also all too dismal — the number who drowned during a hot Sunday afternoon, the expected highway fatalities on a holiday week end, or how easy it is to do in yourself while you do it yourself.

In contrast, the *Canadian Life Tables, 1951*, published by the Dominion Bureau of Statistics, offer comforting reading. For example, a Canadian, 30 years of age, can look forward to a further 42 years of life, or reaching 72 years of age.

However, if he is alive at 72 he has a life expectancy of 9 years, which would take him to 81. At 81 he could expect to reach 86, at 86, 91, at 91, 94 and so on.

Statistically speaking, anyone can live to be 100. All he has to do is beat the averages.

"As long as there's life, there's hope."

A Local Look At Television

Vicki Fremlin

"TV is the greatest of all civilizing forces" said Sir Robert Fraser, Director-General of Britain's new Independent Television Authority (I.T.A. vs. B.B.C.). "So long as it is not actually wicked, it is a great force—even if it is fairly bad." Here Vicki Fremlin, women's editor of The Farmers' Advocate, assesses a local TV station in Canada from the business viewpoint.

TO begin with a qualification, television can never be a local medium in the sense that radio has been. Where every small city or good-sized town could support its own radio station, the simple mechanics of visual broadcasting impose a limitation on the number of stations which can usefully function in a given area, so that a private station cannot afford merely to think locally. Its signal will be the strongest within a radius of 30 miles (the A area); and will reach an extreme limit of a 60-mile radius, where there is apt to be strong competition from other stations.

The private station must therefore think in regional terms, and must consider a much larger and more heterogeneous audience than that to which the local radio station addressed itself. Such an audience of course implies a tremendous range in taste, in status, in education, in environment. And happily—from the advertisers' point of view—an enormously increased potential market.

Once the private station is established in a district, the pattern of life in that district is irrevocably changed, willy nilly. We may deplore or applaud the change, but recognize it we must. The conservatives among us may refuse to reconcile themselves to it, but their resistance is as futile as King Canute's injunction to the sea. No matter how carefully we hold ourselves aloof, we eventually find ourselves adapting and adjusting to the new force in spite of ourselves.

Advertising Success Stories

For the businessman, in addition to the impact of TV on his private life, there is its impact on his business. Can he afford to advertise in this forbiddingly expensive medium? Worse still, can he afford not to? Television is a natural medium for advertisers with larger budgets. But the small man appealing to a regional market can be for-

given a shudder at the cost of television advertising, which is approximately five times that of radio.

Conversely, television advertising, properly used, has *at least* five times the pulling power of radio. It is an unprecedentedly effective selling agent. There is a whole literature of TV advertising success stories growing up; and many of the stories' heroes are still so dazed they can hardly believe that it happened to them.

There was the case of a London restaurant which bought a spot advertisement on a popular day-time programme and cancelled it after three appearances; business increased so prodigiously that the restaurateur was run ragged. His facilities could not begin to cope with his customers.

There was the manufacturer of irrigation systems, who bought one five-minute programme on the weather show, with a one-minute, 20-second commercial. The outlay for this brief flash on the television scene was $104 . . . or approximately $21 per minute. But on that $104 outlay they did $100,000 worth of business.

Another local company — a manufacturer of quality cheese — had previously advertised only through restaurants, by means of stickers on the menu recommending their brand. Their annual advertising outlay was approximately $2,000. The truck supplying all Western Ontario made one trip weekly to stock retail outlets, and usually returned with goods left over. With the establishment of a television station in their home area, the cheese manufacturer embarked on a fairly ambitious advertising campaign—a half-hour participation in the Hopalong Cassidy show, plus a give-away gimmick. After the first six-week period, the supply truck was going back to the factory to be refilled every night. From 10 percent distribution in London chain stores, the cheese went up to 90 percent distribution.

Success stories such as these could be multiplied indefinitely; they would have to multiply anonymously, however. Somewhat to the chagrin of TV station management, advertisers are apt to "clam up" on quotations. Verbally, they will be expansively appreciative . . . but their glowing accounts of booming business will be carefully qualified as "not for publication: too useful to the competition."

In any event, there is no doubt about the efficacy of television as an advertising medium, and it has been successfully used by advertisers in a bewildering variety of fields. Advertisers who have no hope of reaching the average consumer—the manufacturers of jet engines, for instance—use television advertising as an educational and public relations medium. Many firms engaged in heavy industry direct institutional advertising at the layman, endeavouring to show a relationship between

the firm and the growth and development of Canada. The advertisement may not promote sales, but it educates the public and creates good will.

Of course, there is no assurance of how enduring the effect of TV advertising may be. Audiences may in time develop protective callouses on their sales resistance, just as they learned to develop an auditory block for radio commercials. At present, however, while we are all still vulnerable, TV is a selling medium of incomparable effectiveness.

Common Mistakes

Just as certainly, however, the medium can be well or badly used for advertising. The instance of the irrigation system was an "almost perfect" use of television advertising. The programme appeared during a prolonged drought in August; its sponsorship of the weather broadcast could not have been more apropos. The audience, listening anxiously to the weather in the hope of rain, was beautifully primed for a good response to the offer of an irrigation system. Timing, context, audience, all were right; and most significantly, the commercial answered an urgently felt need.

Advertisers are apt to make some curious failures, however. They aim their product at one particular audience, and then time their show so that the audience won't be home to see it. Certain items lend themselves to quick sale while others (automobiles, refrigerators, and so on) naturally depend on a steady year-round market. Nevertheless, advertisers of such commodities are frequently disappointed and indignant that a TV commercial does not produce a sudden furious burst of buying, similar to that on a low-cost, seasonal item.

A major headache at TV studios is the camera-struck sponsor who wants to plan, produce, and sometimes perform the entire programme himself. He buys air time not simply to sell his product, but because all the "ham" in him cries out for expression. Studio officials have to be gentle but firm in such cases. Not only does it make for some appallingly amateurish work, but an unwritten law has developed that the sponsor must not be allowed to dictate the course of events as he was permitted to do, with results of unprecedented awfulness, in commercial radio.

Competition for Circulation

Apart from such considerations, the effectiveness of television advertising depends crucially on circulation — the size of the audience which the station can reach and hold. And here, of course, is where the industry becomes competitive. In Southern Ontario, with its denser population, its proximity to the American border, and its numerous urban centres, television is bound to be highly competitive. Each station will

have its "A" area where the clarity of the signal will in itself be a fair inducement for tuning the home station. But beyond these favoured areas there are anarchical regions where overlapping stations must compete furiously for an audience. And it is in these doubtful areas that major circulation battles will be fought.

A Local Example

An interesting case history is that of CFPL-TV, in London, Ontario. The station opened in November 1953, with the avowed purpose of performing a peculiarly regional function. The studio management believed that people's most vital interests are in the affairs of their own particular area.

"It would be very simple for us to buy film with general or national interest," explained Bob Reinhardt, assistant manager of CFPL-TV, "instead of doing live programmes and newsreel. But in any one day's normal programming there's no shortage of big names and national affairs. We would have a serious loss of viewers if we didn't cater to the local area as much as possible. By supplying a strong regional flavour, and by including as much as possible of local participation, we feel we're getting through to the people we're most immediately concerned with—the people in our own district."

CFPL-TV's circulation figures are indicative of the success of this policy. According to a coincidental telephone survey taken in May 1955, on thirty of their programmes they have a 100 per cent audience.

In the A and B areas, where their signal is definitely superior, the London station has a fairly constant audience of 68,430 TV homes. The fringe area, where reception is less reliable, and competition enters, has another 60,000 homes but these are less constant as an audience. In London proper, 66 percent of the homes have a TV set, and of these, 83 percent never tune any but the home station.

But can the local shows of a comparatively modest private station compete with American programmes in an area where reception on the latter is adequate? The records indicate that CFPL-TV has no difficulty in holding its viewers against rival stations on the average programme. But when it comes to top shows like Toast of the Town, Jackie Gleason, and so on, it's a different story. Competition against these top-popularity shows is tilting with windmills, and rather than attempting it, Canadian stations prefer to carry the big shows on their own programme schedules. It's physically impossible to carry them all, but the stations can choose those they consider most attractive. Along with these, they have the best Canadian material available to them as CBC affiliates. Finally, CFPL-TV has the added inducement of their own local production of syndicated film and local live shows, and this permits them to offer a remarkable diversity of programme fare.

Local News Department

The effectiveness of any programme can be estimated to some extent by the value placed upon it by advertisers. CFPL-TV's newsreel is always sold out, with far more would-be sponsors than can be accommodated. London's motion-picture news department is its most unusual operation, and one that is practically unique. Studio officials believe that the daily newsreel is their most important circulation-holding feature.

A staff of five photographers on the station, plus seven "stringer" photographers — free-lancers under contract — cover all the important news stories in the district. Film is processed in the studio, the editor writing the commentary as it goes through the editing machine. Stories have been shot, processed, and on the air in as little as 45 minutes, with the result that CFPL-TV can supply a pictorial newscast of an immediacy which simply cannot be beaten.

The newsreel has made London "home station" for many outlying places in competitive areas. CFPL-TV has a photographer based miles away in Stratford, and Stratford people know that London's TV news will be covering all the important Stratford news stories: so they tune London.

"We look to Channel 10 as our station," a Stratford school teacher put it, "just because of the news."

The circulation made possible by the newsreel is the guarantee of a large audience, and advertisers clamour to buy time on the newsreel. For all this, the station can never charge the sponsor the actual cost of his show. The chief reason that CFPL's newsreel operation is so unusual is that it is inordinately expensive, and simply must be subsidized by the station. The only comparable operation in the country is that of the CBC, with whom CFPL has an agreement on regional coverage. The air accident involving the death of Ontario Hydro chief, Robert Saunders, was entirely covered by London photographers for the network news. Ontario Premier Frost's London announcement of the provincial election was shot in advance by CFPL-TV cameramen, with the promise that they wouldn't release it before 9 o'clock that night, since the speech wasn't scheduled until 8.30. CFPL made the take before the banquet, ran off a print for the CBC, who sent a chartered plane to London for it and had it on the national network at 11 p.m. They did not learn until afterwards that the banquet had been delayed, and Mr. Frost's announcement was made just one minute before the news broadcast.

CFPL-TV also produces an unusually large number of live shows, staffed so far as possible with local people. Again, these are of peculiar value to advertisers. The studio management has established satisfactorily that people will tune a station where they can see their own district presented, and possibly members of their own family or neighbours, whether the show is live or recently filmed.

Selective or Network Advertising

The advertiser planning a television campaign can buy time in two ways — network or selective. To sponsor a programme, or participation in a programme on network, the advertiser deals directly with the CBC, and CBC contacts subsidiaries and makes arrangements for time clearances. However, the advertiser cannot choose the area to which his message will be broadcast: he must send it out to every station affiliated with the CBC-TV network. And since every station is automatically affiliated with CBC, with more and more small centres coming on the air, clients frequently feel that the extra cost of relaying the programme to them is not justified by the size of the market reached.

Until a change in network policy allows advertisers to buy regional networks and subsidiary networks, the alternative method is "selective" — by which the advertiser chooses the area he wants to reach, and deals directly with the stations in those districts. Certain shows, of course, are available only on network and the "selective" sponsor who wants to reach a particular area may not always be able to secure the programme he most particularly wants.

It is with the selective advertiser that CFPL-TV's regional policies have paid off most significantly. In studios where there is practically no local live production, this advertiser may find no more tempting sponsorship material than slightly aged film. CFPL offers an afternoon variety show for women; "Panorama", an hour-long show from six to seven o'clock, designed to tell the people of Western Ontario about themselves, covering events that are taking place, and presenting local personalities; and the all-important newsreel.

Whether or not this is the secret, CFPL's clients include purveyors of shoes and ships and sealing-wax, of soaps and soups, of ladies' lingerie and diesel engines, of heavy industrial machinery and of such intangibles as insurance and credit. Last Christmas a manufacturer of men's jewellery reserved time a year in advance on the women's show: he plans to capture the feminine audience when they are planning their Christmas shopping.

Time on sponsorship is flexible and experimental. The advertiser can buy one eight-second spot announcement, or one hundred; he can contract for participation in a programme for varying lengths of time. Although no clear pattern for sponsorship time has emerged as yet, there is a tendency to buy programmes in "flights" of 13, 26, 39 or 52 week periods.

CFPL-TV, with its regional flavour, can of course perform a peculiarly useful function for the local merchant or manufacturer, but plenty of national advertisers buy time on their local live productions. Certain large firms have made it their policy to buy nothing on a network basis. Although they may have nation-wide affiliations, they want to be identi-

fied with the communities in which they establish their branches. There is a tendency, when such large companies set up a branch in a smaller centre, for the natives to regard them with suspicion and resentment, suspecting that any money spent with them is going out of the community. Such firms are anxious to put down roots, and they are CFPL's best customers on local live shows and newsreel, through which they hope to identify themselves with the community.

One company in particular — a large national organization based on door-to-door selling — is making its television debut through CFPL. Their interest is in buying a local feature, preferably something offering a community service, such as weather or the news. The object behind this is not to attempt any actual sales of their commodity through television, but rather to make themselves a part of the community life, to become identified with community welfare. In addition to its public relations value, the programme will be used to back up their sales campaign by familiarizing the audience with the firm's name, and so effecting a morale-boosting introduction for salesmen. CFPL's newsreel made it a natural for the company's purposes, and for this reason the London area was chosen for the experiment.

A Long View at the Budget

CFPL-TV's operation, with its high-cost newsreel and live shows, is forbiddingly expensive. There are television stations operating in the province which use absolutely no live shows — do not, in fact, have a camera in the studio. They depend entirely on film, kinescope, and network shows. Needless to say, their costs are comparatively negligible, and some of them were operating at a considerable profit within three months of opening.

The management of the London station feels that this is a drastically short-sighted policy, and CBC is inclined to scrutinize the licenses of such stations with a critical eye. For one thing, such broadcasting tends too much in the direction of commercial radio, with its lowest-common-denominator philosophy, its canned music, and vulgar huckstering. It gives no scope or encouragement to local talent. And finally, in the long run, CFPL is certain that such programming cannot compete with the interest offered by a station with genuine regional feeling.

That is in the long run. In the short run, CFPL-TV's books present a much less cosy record of return on investment. Although the station is now operating in the black, the profits are infinitesimal — something around $400 a month on a million dollar investment, and for years to come all profits will be plowed right back into the business. The station is currently filing for a power increase, which if granted will involve further capital expenditure of $170,000; this will not increase coverage by more than about ten miles, but it will greatly improve the signal in

the areas to the north and south, in the important Sarnia-Chatham area — a highly desirable district for good television coverage, because of U.S. competition.

After that, there are plans for building a second studio to allow the programming of more live productions on a "back-to-back" basis. There is too a chronic problem of obsolescence. The first day the CFPL-TV transmitter went into operation, it was already obsolete. After less than two years, the studio must invest in new projection equipment at a cost of about $700,000. And just around the corner, of course is colour. There is a possibility that the station will be transmitting network colour and film colour by 1956.

Inevitably, in such a picture, television advertising is going to be expensive. Programme costs for the month of May, 1955, with an 84-hour broadcasting week, were conservatively estimated at $30,000. This cost is not due simply to growing pains — it is intrinsically a costly medium. Whereas in radio a blank programme spot could be filled simply with recorded music, at no cost, the only alternative in TV is film, which cannot be purchased outright and which is itself an expensive medium. When it reaches a point of stability where costs are fairly constant, TV will probably still be approximately five times as expensive as radio. Colour could run to a figure eight times as high as radio.

A Broad View of Responsibilities

Television officials, both in the CBC and in most private stations, seem to have a strong awareness of their responsibility in planning their viewers' TV diet. Most of them feel a slight sense of awe when they consider the power of their medium, with all its unrealized — probably still unsuspected — potential for good and evil.

"Television can't be allowed to become simply a selling medium," Bob Reinhardt believes.

In radio the sponsor was often allowed to have an absolutely despotic control over the programme he financed, regardless of how bad his taste or how undesirable the effects of the programme. That policy resulted in a degradation of the medium that is still painfully apparent today in much American and some Canadian radio.

Television people are making a strenuous effort to prevent this from happening to the new medium. The threat is always there; but also present is the knowledge that TV cannot be allowed to degenerate into a selling medium, pure and simple. With its power to influence ideas and affect behaviour, it is inescapably an educative medium. It may form the mental pattern of generations unborn.

In dealing with such a force, television people must accept their responsibilities — and they are aware that those responsibilities are grave ones.

Book Reviews

THE GREAT CRASH

by John Kenneth Galbraith. Houghton Mifflin Company, Boston, 1955. 201 pp. $3.00.

Professor Galbraith is well and favourably known as the author of "American Capitalism", in which book the concept of countervailing power was elaborated. Books from his prolific pen are, as a result, eagerly awaited by economists and others concerned with economic problems. Canadians should be particularly interested in his work as Galbraith was born in Canada and studied in this country before leaving for the United States.

It seems likely, however, that the book under review will add little to the author's reputation. Galbraith set himself the task of describing the events of the stock market boom and collapse which the United States experienced in 1929. This story he relates in a clever and amusing way — though his humour is somewhat embarrassing in places. The frantic events that led up to the October denouement are described in detail. The reader is made aware of the psychological aspects of the boom and it is in this, especially in view of the current doubts about the health of Wall Street, that the book is probably most valuable. Certainly after reading this book one is unlikely ever to contemplate with complete equanimity the spectacle of a feverishly booming stock market. This objective was prominent in Professor Galbraith's mind in writing the book. "It is worth hoping that a history such as this will keep bright that immunizing memory (of 1929) for a little longer." (p. 5.)

The author views his book as primarily a chronicle of what happened, though, however, there are to be "frequent pauses to see how things work and why". Undoubtedly it would be unfair to criticize Galbraith for not having done more thoroughly that which he only incidentally had in mind. Certainly, however, one is justified in regretting that Professor Galbraith chose to treat this subject in so journalistic a manner and that he found so little room for economic analysis. It seems to this reviewer that he might profitably have developed some of the points rather casually presented in his chapter on cause and consequence.

In conclusion, it must be stated that the book makes excellent and entertaining reading. It is, in addition, useful as a warning of the dangers

of stock market excesses. But surely with an economist of Galbraith's ability, a reviewer is entitled to feel disappointed that he is unable to offer more generous praise.

—J. P. Cairns, Lecturer
Ontario Agricultural College

CHANCE OR DESTINY—
TURNING POINTS IN AMERICAN HISTORY

by Oscar Handlin. Little, Brown and Company, Toronto, 1954. 220 pp. $4.25.

In this volume the author aims to show the place chance played in giving a twist to some episodes in the historical development of the United States. The eight episodes which the author deals with are: the battle of Yorktown; the Louisiana Purchase; the explosion of the *Princeton* in 1844, which killed the Secretary of State, Abel P. Upshur; the Battle of Gettysburg; the purchase of Alaska; Dewey at Manila; the *Lusitania;* and Pearl Harbor.

Interesting as the book may be, the author has attempted to cover too much in too little space. He hangs too many conclusions on too few and too small pegs. Chapter Two, the Louisiana Purchase, can be used to illustrate the point. He concludes this chapter by saying, "Thanks to the ice that had formed across the waters of a remote Dutch harbor, the advancing host of American settlers moving westward towards the Pacific at a turning point in our history now found the way open to them." But in his own pages which precede this statement, the author shows that yellow fever, which had crippled the French army in Santo Domingo, and changing circumstances in Europe, both were contributory to Napoleon's not proceeding with the settlement of Louisiana. The reader is tempted to ask just how much did the delay of the French fleet affect the event. The same chapter reveals a looseness of expression. The sentence, "The vast expanse between the Mississippi and the mountains was thus joined to the young American republic," overlooks subequent territorial accessions; the substitution of "a" for "the" as the first word in the sentence would have remedied this.

The weakest chapter is number Three, "Explosion on the *Princeton.*" Starting with the death of the Secretary of State, as the result of the explosion of a new twelve-inch gun called the "Peacemaker", the author concludes, "The shells that fell around Fort Sumter in 1861 had long before been touched off by the explosion of the 'Peacemaker' on the *Princeton.*" In between, he just does not make his point, which is that the

substitution of Calhoun for Upshur altered the course of events. The policy behind the Secretary of State was Tyler's and there is no evidence that this policy was changed. Furthermore, his gratuitous attack on Calhoun, in addition to being grossly unfair, does not advance the story. A reader is almost left with the feeling that it is surprising that a spectacular explosion in a new American man-of-war can have been so insignificant. At best, the chapter is unconvincing.

His best chapters are those on the Purchase of Alaska, where he makes clear the importance one individual can be in a historical event; the significance of the Battle of Gettysburg, where he shows the climactic force of the battle; The *Lusitania;* and Pearl Harbor. But in these chapters he does not state anything new, for the facts and significance are clear. This reviewer can only conclude by saying that the author has produced a thought-provoking thesis, but the verdict must be the Scottish one, "not proven."

—James J. Talman, Librarian
University of Western Ontario

DEMOCRACY AND MARXISM

by H. B. Mayo. Oxford University Press, 1955, 364 pp. $5.50.

This book is a reader's delight. It is the work of a scholar and it deals with vital issues, in a fresh and stimulating manner, spiced with a dash of humor.

Dr. Mayo brings out two points with freshness and clarity: (1) Marxist theories are not as definite as is commonly supposed; there is a great deal of confusion and ambiguity about most of them. (2) There is a great gap and sometimes a flat contradiction between what Marxists say and what they mean, or between their avowed and their actual motives and purposes.

For instance, they claim to be objective students of history, politics and economics — and vigorously disclaim and decry any criticism of existing institutions on moral grounds. They claim to have proved that communism will be the inevitable outcome of social forces, and they ridicule any appeal to justice or generosity. Dr. Mayo demolishes their scientific and philosophical pretensions, and points out that the strength of their appeal consists entirely in its criticism of capitalism — on moral grounds.

His critical analysis of Marxism does not prevent Dr. Mayo from noting the service rendered by it. The communists serve as "gad-flies, captious and irresponsible critics . . . they prevent complacency . . . also offer us, in the USSR, a perfect object lesson on what to avoid." (p. 321)

The book examines all the major tenets of the Marxist creed, and demonstrates that it is held on grounds of faith rather than of fact or logic. It demonstrates, too, the inherent incompatibility of Marxism with either democracy or Christianity.

Dr. Mayo treats evidence and argument with judicial impartiality, and yet he arrives at clear-cut verdicts and expresses them in no uncertain language. Samples of his judgments: ". . . dialectical materialism is not so much false as nonsensical . . ." (p. 290) ". . . . whether on its head or on its feet, there is nothing to show that dialectic is a true description of nature . . ." (p. 18). On the economic interpretation of History: ". . . riding too hard the hobby-horse of a one-factor explanation . . ." (p. 51). "What Marxism cannot explain is the hostility of business to its alleged puppet, the state." (p. 295.) For the evidence on which the judgments are based, read the book. You will like it.

THE PUBLIC PHILOSOPHY

by Walter Lippman. Little, Brown & Company, Toronto. 189 pp.

This book is an attempt to uncover the cause of certain shortcomings of democracy and to suggest a remedy. Unfortunately, the diagnosis is dubious and the prescription impractical.

Mr. Lippmann's thesis is strikingly similar to that of Winnifred Martini's, "Das Ende Aller Sicherheit" (1954). Both writers hold that democracy has failed, that its failure has been especially marked in the field of foreign affairs, and that it has been caused by "Jacobinism".

These writers differ in their conclusions. Martini thinks that Jacobinism is the inevitable outcome of democracy, and that therefore democracy should be discarded in favor of authoritarianism. His hero is Salazar. Lippman believes that democracy can be rescued by a revival of "The Public Philosophy" — his term for the theory of Natural Law.

Readers will decide for themselves whether or not democracy has failed. If results are any evidence, there would seem to be a case for the view that if democracy has been a failure, dictatorship has been a catastrophe — precisely in the field of foreign policy. However that may be, there can be no doubt that Lippmann is mistaken in saying that the legislatures, "the mouthpieces of the masses", are gaining in power at the expense of the executives. The trend is in the other direction. Where governments are weak as in France and Italy, it is not because they are dominated by the will of the people; it is because public opinion, as reflected in the political parties, is so hopelessly divided that no clear "will of the people" exists.

Lippmann believes that the theory of Natural Law lost its influence because it was not "re-worded to fit the needs of the industrial age". He contends that it can be "restated in a way that will carry conviction with a skeptical intellect." Now the fact is that the theory of Natural Law is dead. It was killed by the critical mind of David Hume before the Industrial Revolution took place. I fear it is quite beyond hope of resurrection.

Lippmann's book does serve to remind us of one of the perennial problems of democracy — how to get good governments and wise policies out of populations that are neither very good nor very wise — but to get an answer we will have to look elsewhere. My suggestions are Mill, Russell and A. D. Lindsay.

—W. B. Harvey, Professor of Political Science
University of Western Ontario

THE PR IN PROFIT

by Leonard L. Knott. McClelland & Stewart Ltd., Toronto, 1955. 254 pp. $6.00.

In a relatively short span of years public relations policy has become important in the minds of most businessmen. In the School of Business Administration at the University of Western Ontario a course in Public Relations and Responsibilities is offered at the graduate level. There is a growing awareness that effective public relations has a very important bearing on the success of the business enterprise. However, it is undoubtedly a fair statement to make that the average Canadian businessman is only at the awareness stage in his attitude towards public relations and that he has much to learn as to just what constitutes responsible action, on the one hand, and how a public relations policy can be made effective in the eyes of the public, on the other.

There is a new book on public relations in Canada entitled "The PR in Profit", written by Leonard L. Knott. While the author is identified within the professional ranks of public relations men in Canada, this book is written in such a way as to be unquestionably helpful to all businessmen, not to mention many individuals associated with other types of organizations which must be concerned with the subject of public relations. It should be pointed out, however, that the emphasis in this book is on the problem of making a public relations policy effective. Note, for example, that the author defines public relations as follows: "Basically, good Public Relations consists of knowing, being known to and getting along with people." To the reviewer, the major contribution in the book

is to get across to his readers the fact that no matter how sound a policy one may follow it is tricky business to avoid simple mistakes which have the effect of destroying results. The part which the public relations expert may play in assisting business organizations in the development of an enlightened public relations programme is handled most effectively. And it should be added that the small business organization is not excluded in the author's discussions, and he correctly points out that some of the finest examples of good public relations are to be found in small companies or even individuals.

This book is not addressed wholly to businessmen, however. As the author puts it, "Everybody, every business, every institution, organization or company has Public Relations." It is with pride that the reviewer notes that his own university is singled out as having done an extraordinarily fine public relations job in establishing its French summer school at Trois Pistoles, P.Q.

"The PR in Profit" is a most readable book, on a most important issue in Canada today. It may be read by everyone with great profit.

—Lloyd W. Sipherd, Professor

U.W.O. School of Business Administration

BEHAVIOUR IN A SELLING GROUP

by George F. F. Lombard. Harvard Business School, Boston; Mass., 1955. 359 pp. $4.00.

Observers spent six months collecting the material on which this book was based. All the emphasis is on the behaviour pattern of salesgirls, customers, and executives, yet throughout the book there is almost a complete blindness in regard to what actually causes their behaviour, or how their behaviour fits into the greater picture of a large American department store. It is as if a visitor to an art gallery spent his entire time studying the quality of the picture frames, without ever having any inclination to examine what the frames contained.

To this reviewer, not a psychologist but a practical merchant with twenty-three years' experience in the department store business, the book is devoid of merit or value. To a psychologist interested in a theoretical study of the behaviour of a group within a society, it might prove interesting — we have no means of knowing. Were anyone solely interested in studying the organization and operation of a department store, there should be a sharp warning that department stores in the United States are radically different in character to department stores in Canada, Great Britain, Holland, Belgium, Switzerland or France.

The author makes heavy going of his material and fails to paint a clear picture of the forces which really motivate the segment of the society he is studying. He has, unfortunately, chosen for his subject a department in a large American store, managed by people of very limited stature, and a department apparently receiving little guidance or inspiration from top management. Such departments are not uncommon, but why spend 359 pages describing them. Further, he finds difficult to reconcile the mediocre quality of the top management, the department management and the sales staff with the magnificence and importance of the organization as a whole. It does not seem to occur to him that the group he has so minutely studied is simply trying to maintain something that some former able merchant originally built up; that the originators of the operation were probably men of great energy, character and imagination. What a different pattern would have been observed, had the study been made during this "build-up" period. What worthwhile reading it might have made!

—R. C. Gibson, Manager
Simpsons London Limited

MOTIVATION RESEARCH — A NEW AID TO UNDERSTANDING YOUR MARKET

Edited by Hans A. Wolf, Motivation Research Associates, Boston, Mass,. 1955. 80 pp.

Motivation research to all but some few psychologists, psychiatrists, sociologists and anthropologists, has been shrouded in mystery and is only now slowly emerging into the clear light. Even this process, however, appears inevitably slow and for those who are keenly interested in the subject, but not initiated into the methods and assumptions of the social sciences, somewhat laborious. Several volumes are now appearing, however, which should be a great deal of help to these people.

The research report under review, which was prepared by a group of Harvard Business School students, attempts not only to describe the main aspects of motivation research but also to clarify some of the issues involved in it. Information in the report was obtained from discussions with a very imposing group of men "active in motivation research work and in the marketing field generally". The members of this group come not only from academic circles, but also from industry and research organizations and therefore are well qualified through experience. and study to evaluate motivation research.

One gains the opinion while reading the report that the verdict, although well hedged with cautions and admonitions, is on the whole favourable. The students and the experts apparently feel that motivation research presents true possibilities for the study and discovery of the "inner" consumer. It is somewhat unfortunate, however, that no real examination of the assumptions underlying the techniques is presented. Although few doubt that consumers (for are we not all consumers?) do have motives both hidden and apparent which encourage them to choose or reject certain products, many may doubt the stability or consistency of these motives, not only within the individual but also within groups. In addition, is it not possible that the creativeness (or inquisitiveness if you wish) of people will often combine motives and their activities based upon them in new and unexpected ways for the sheer pleasure of discovering what will happen? It may be, of course, that the experts have answers to these questions, but if so they do not appear in the report. Quantitative research as a verification and evaluation of the findings of procedures based on depth interviewing and other qualitative techniques is strongly recommended, however.

The report has a valuable feature incorporated in it in the form of a very adequate bibliography. A perusal of the contents of both the report and some of the publications recommended will give the business executive as well as others an insight into many of the aspects of this new and no doubt important area of research in the field of merchandising and marketing.

—Frances Oxley, Research Associate
U.W.O. School of Business Administration

THE DREAM OF SUCCESS

by Kenneth S. Lynn. Little, Brown and Company, Toronto, 1955. 270 pp. $4.50.

The great American myth of success, born with Columbus and reaching manhood when Horatio Alger, Jr. a hundred years ago wrote his rags-to-riches stories, dies hard. Fundamentally it is still the drive behind the many immigrants to North America. The enormous popularity of the Alger stories proved how deeply imbedded was the myth in the American psyche. In this book Kenneth Lynn deals with the impact of that myth on American life and literature.

Now Assistant Professor of English at Harvard, Lynn achieved the unusual distinction of winning the Bowdoin Prize, Harvard's most famous literary award, three times. By analysing the careers and writings of Theodore Dreiser, Jack London, David Graham Phillips, Frank Norris

and Robert Herrick, he joins issue with most of his fellow critics. "For forty years our literary historians have been insisting that American writers have been alienated from the business civilization, that America has been divided into two camps, Left versus Right, and that our writers have for the most part been on the Left. My contention is that even if the Left versus Right theory did make a certain amount of sense once, it has long since become a sterile formulation which hangs around the neck of American literary history like an albatross. I propose to understand American writers in terms of their society, not in terms of their opposition to it."

Businessmen in Canada, where we may well consider we have become heirs to the American dream of success, will find stimulating this introduction to American success literature and perhaps be surprised that writers so eminently successful within the competitive system should often have been so critical of the system which was the basis of their success.

ECONOMICS AND ACTION

by Pierre Mendes-France and Gabriel Ardant. Unesco; University of Toronto Press, Toronto; Periodica Inc., Montreal, 1955. 222 pp. $2.00.

A book by a premier is always news. When the premier is also a brilliant economist, a clear thinker and a skillful writer, the book is worth reading. When it has as subject Economics and (political) Action, is the first of the "Science and Society" series published internationally by Unesco to show that research carried out in the social science fields has produced important practical results, it can be thoroughly recommended. Let the authors speak for themselves:

"Weimar Germany would not have known the six million unemployed who made Hitler's success if it had not been for the error of an economic policy based exclusively on classical theory. It is no paradox therefore to argue that the second world war and all its consequences resulted from an economic fallacy.

"Since economic facts are considered to be common knowledge, and statesmen and their electors do not have in this sphere the blind faith in the expert that they have in the sphere of physics or chemistry, the public needs to be convinced. It is not enough to enlighten a few people; the people at large must be made acquainted with these problems, if not in detail at least in essence, and made aware of the importance of a logical policy.

"That, precisely, is the purpose of this work: to show the importance of economics by concrete examples taken from the history of the last thirty years."

Anyone wanting a clear guide to the effect of Maynard Keynes on "classical economic theory", anyone wishing a scintillating introduction to economics, written by authors capable of a truly international view, will find this book his answer. So often the paradox of economics has been that its theories, e.g. the benefits of free competition, have been accepted for domestic business, but disregarded when dealing with the foreigner; unlike international religions, art or music, economics had to be bound by frontiers. Yet this book is truly international, and Unesco, authors Pierre Mendès-France and Gabriel Ardant all deserve congratulations — especially to have compressed so much so readably into 222 pages. May "the public be convinced".

CONSUMER ECONOMICS

by James N. Morgan. Prentice-Hall, Inc., New York, 1955. 440 pp. $8.00.

Here is a refreshingly new approach to both economics and business. Simple economic theory with Robinson Crusoe and the economic man was divorced from fact; simple explanations of business were often boring platitudes and always written from the viewpoint of producers. Yet although we are all consumers, the logical consumer approach to economic and business problems could not be written earlier because our knowledge of consumer behaviour, motivations and aspirations was limited until the development of the personal interview survey with a representative sample of consumers. Furthermore there has been no pressure group to represent the vested interests of consumers. In U.S.A. we see labour served by the Labour Department, farmers helped by the Department of Agriculture, businessmen by the Department of Commerce, but the consumer has no representation at all. Even newspapers, radio and magazines do not have consumers' interests foremost.

In addition to teaching in the Department of Economics at the University of Michigan, author James N. Morgan is assistant programme director of the Survey Research Center. Consequently his book, not only novel in approach, is also packed with interesting current consumer facts against a background of rich reading, ranging from Stephen Leacock's "Hellements of Hickonomics", which so aptly describes the 1955 farmer—

"His work is never done,
Not even with the sun,

Because it's not begun
He hasn't got to —
We pay him not to."

to John Ruskin's wisdom, so suitable today, a hundred years later—

> "We need examples of people who, leaving Heaven to decide whether they are to rise in the world, decide for themselves that they will be happy in it, and have resolved to seek — not greater wealth but simpler pleasure; not higher fortune but deeper felicity; making the first of possessions self-possession; and honouring themselves in the harmless pride and calm pursuits of peace."

The consumer's first decision is whether to consume or save, and, after details on saving, investment and the use of credit, the book traces the social consequences of consumer decisions about spending, saving and investing money. The ideal consumer is shown the importance of personal budget analysis, planning and record keeping, the sources of consumer information and how to shop and outwit himself in making detailed purchase decisions. Chapters deal with risks and insurance, medical care (seen from the view of both consumer and society), housing, other major consumer expenditures, and the protection for the consumer through government, organizations and self-help.

The concluding chapters on the consumer as voter and citizen and on maximizing consumer satisfaction raise such current problems as resale price maintenance, agricultural price supports, tariffs and quotas, private versus social costs and the role of government in providing services and re-distributing income and wealth. This book provides a simple course in what is sometimes called *personal finance* and as such should prove invaluable help to those contemplating buying either bonds, stocks, durable or non-durable consumption goods, or to those studying consumer behaviour or investment management. What is even more important, it is worth reading for its own sake and for the consumer approach to so many of today's vital problems.

APPROACHES TO ECONOMIC DEVELOPMENT

by Norman S. Buchanan and Howard S. Ellis. Twentieth Century Fund, New York, 1955. 494 pp. $5.00.

"The United States cannot stand idly by and witness the recruitment of the populous countries of Asia and perhaps even of Africa and Latin America to communism," warn the two eminent economists, both of the University of California, asked by the Twentieth Century Fund to find

answers to such $64 questions as why do two-thirds of the world's peoples still live and work much as their ancient ancestors did, while the other third have forged ahead, and to what extent can the economic development of the underdeveloped regions be accelerated by "importing" techniques and capital.

Being economists, they have produced a thoroughly documented and indexed economic study. Part I's five chapters analyze the problem; Part II's six more show how the industrial revolution evolved first in Britain, later in Europe, Europe overseas, Japan and U.S.S.R.; and Part III's nine chapters on achieving development in the contemporary world contain an admirable collection of data on the relative decline of international investment even despite all the postwar U.S. agencies and U.N. programmes.

But, as the authors themselves emphasize, "the needed economic improvement is not achieved merely by supplying loans and capital equipment and demonstrating superior techniques of production". The urge for what westerners call economic improvement must be generated primarily from within. Cultural, religious, political and other factors may be more important than the economic ones. Why do many in Asia and as close as the Caribbean prefer to remain "undeveloped"? This is more a political and psychological problem than an economic one, especially when economists are suffering from such schizophrenia that they demand full employment policies at home even though these involve the giving away of surpluses behind the Iron Curtain so that western markets will not be disorganized. Along the lines of some Special U.N. Fund for Economic Development (SUNFED) as discussed at the last Geneva meeting of the Economic and Social Council lies the ultimate solution of both western surpluses and the hunger of undeveloped countries, but SUNFED still requires a thorough publicity campaign. Authors Buchanan and Ellis have provided the case material rather than the arguments, and written more for their fellow economists who may already be converted than for the unconverted world at large.

THE QUEST FOR FREER TRADE (*66 pp. $.40.*)

WORLD ECONOMIC REPORT, 1953-54 (*164 pp. $1.75*)

United Nations Publications. Available at Ryerson Press, Toronto, and Periodica, Inc., Montreal.

Prepared by the U.N. Bureau of Economic Affairs, these studies served as background information for the Economic and Social Council when it discussed the world economic situation at its twentieth session in Geneva in July.

In "The Quest for Freer Trade" the change in international commercial relationships that accompanied the collapse of the gold standard in 1931, the instruments of commercial policy — particularly quantitative restrictions and exchange controls — which have since then added to the complexity of the problem of trade, the question of import tariffs with the related issues of preferential systems and customs unions, valuations and customs formalities, export controls, such as subsidies, liquidation of surpluses, dumping, restrictive business practices, international commodity agreements, control of exports of scarce commodities and the safeguarding of vital political interests — all are described in flat official jargon hardly calculated to inspire modern Cobdens, Don Quixotes or other reformers.

For the lover of statistics the "World Economic Report" shows such historical facts as that world trade in 1954 surpassed by seven per cent the all-time peak that had been reached in 1953, with the industrial countries of western Europe accounting for most of this increase. National output and employment continued to advance in western Europe in 1954 but there was a decline in North America. However, by the end of the year definite signs of recovery appeared in both the United States and Canada!

BUSINESS YEAR BOOK

by The Financial Post, 481 University Ave., Toronto, 1955. 160 pp. $3.00.

The Business Year Book presents marketing data in easy-to-use form. It incorporates brand new facts — statistics on the metropolitan areas, agriculture and Canada's labour force, plus a breakdown of the merchandising census by province, county, town and city. It is a ready reference on wages, prices, populations, housing and other vital facts that help measure today's sales potentials.

Providing data otherwise available only from a dozen separate sources, this is a convenient guide to buying power and business activity figures for Canada's cities and provinces; listings for many cities include the number of taxpayers in each income bracket. Another section of the book gives handy and authoritative reports on Canada's leading industries, plus a list of new branch plants of foreign countries.

A comprehensive index makes it easy to find almost any fact you would need to know about Canada. The Business Year Book is the nation's standard reference for business executives, researchers, public officials, writers and speakers.

MUNICIPAL ORGANIZATION IN CANADA

by Thomas J. Plunkett, Canadian Federation of Mayors and Municipalities, Montreal, 1955. 157 pp.

This is a good introduction to Canada's local government. After dealing with the purposes of municipal organization it outlines the Council-Committee System and the position of the Mayor, and then deals with other forms of municipal organization such as the Council-Manager System. There are pros and cons for each and these are summarized.

In local government there is always the problem of services extending beyond municipal boundaries fixed in the horse and buggy era. A special chapter on the problem of boards, commissions and special purpose authorities is descriptive but unfortunately never comes to grips with the fundamental problem of local government, namely how local areas should be extended and adapted to changing economic conditions.

TAXES, TARIFFS AND SUBSIDIES

by J. Harvey Perry. University of Toronto Press, Toronto, 1955. 2 vols. 763 pp. $25 per set.

Inevitably, any organized survey of the development of the Canadian tax structure involves an economic history of Canada, and that, superbly documented and supplemented with 200 pages of bibliography, statistical tables and chronological charts, J. Harvey Perry has written readably and authoritatively. Covering a span of three centuries from the first primitive imposts to the highly complex measures of today, the main emphasis is on the dominant role that taxes, tariffs and intergovernmental subsidies have played in Canadian life since Confederation.

Author Harvey Perry, whose article on outstanding Canadian tax problems is featured earlier in this issue, served fifteen years in the Federal Department of Finance in Ottawa, drafting Dominion tax policy, and negotiating the tax rental agreements between provinces and Dominion, before becoming Director of the Canadian Tax Foundation, which has sponsored these volumes. He is consequently equally at home whether discussing Dominion, provincial or municipal developments. Fortunately for the reader, these are kept in separate chapters and can be studied independently.

Canadian government expenditure at all levels amounts to $7 billion a year, of which a quarter is for defence. Of provincial and municipal outgoings two thirds are for highways, education and welfare programmes. To meet them—and the future promises increases rather than decreases—may mean tax rates on corporation profits of 45 to 50%; rates on personal incomes at more than double pre-war levels; provincial gasoline taxes at new highs; additions to retail sales taxes; and continuing pressure on the real property tax. Despite these gloomy prognostications, "a younger generation of businessmen who have known nothing but the present level of taxation seem as eager to go ahead as their forefathers ever were. Much sorrow is being salved by the beneficient influences of tax-free capital gains for the upper classes and family allowances and old age pensions for the masses. What is most important of all is that the role Canada has adopted in the cold war defence programme is unquestioned by the taxpayers."

One of the most pressing problems in Canada is the proper allocation of taxing powers between the federal government and the provinces and the payment of subsidies to the provinces. The background to these arrangements at the time of the Union and their subsequent developments involve the author in constitutional history which he makes fascinating reading. This is a good book, filling a long felt want.

—A. Gordon Huson, Editor

The Business of Marriage

After the holidays it takes a little while for most businesses to recover from their August inertia. But one line of business that will shortly find itself at the height of its yearly activity is the marriage agency. If the beach, the holiday camp or the summer school have failed to provide the hoped for life-partner, it is time to try some less chancy method. Britain's six or seven leading marriage bureaux and its one matrimonial newspaper are preparing for their seasonal peak.

The marriage business is heavily concentrated in London, which boasts four of the principal marriage bureaux and the office of the industry's one newspaper. Once a month the publication appears, filled with advertisements classified under "Ladies" and "Gentlemen"; and there is a splendid leader which informs the reader that

> By its unique and selective methods of introduction appropriate marriages are arranged as speedily as propriety makes possible. . .

. . . The success rate claimed by the marriage agencies — for those who are prepared to wait — is high. One claims to receive four or five new registrations a day, to have some seven hundred people on the books, and to hear of about two marriages among its clients a week. There will be perhaps two more, it thinks, which are not notified, for some couples like to forget as soon as possible that they married into a filing cabinet and formed an alliance with a punched card. But others have no such inhibitions, and little boxes of wedding cake are continually dropping through the letter boxes of the marriage agencies. Ecstatic letters, eloquent of love, arrive too. It appears that the dart is just as lethal if it costs a few guineas as if it is free.

. . . Wider advertising would no doubt greatly increase the volume of business. At present there is a living, but not a fortune, to be made out of it; and the "job satisfaction" appears to be the matchmaker's traditional one, of fixing up other people's lives. To meet some of those who run these agencies is to be impressed with the good-heartedness and lack of cynicism with which they take on their task. One's only doubt — and that momentarily — about the worthwhileness of it all occurred when the proprietor of one agency concluded an impressive interview with the comment: "Actually it's wonderful to be single, isn't it? I've had a splendid time since I've been alone again."

(From The Economist, August 27, 1955.)

How To Choose An Advertising Agency

For the past two years, The Business Quarterly has published each fall a Canadian case problem for interest and also for discussion by groups. In consequence, we have had many requests for more cases. Previously cases have been selected from the controversial field of administrative practices. Here, by contrast, is a marketing and advertising problem which also raises some of the debatable aspects of foreign investment in Canadian subsidiaries.

IN December 1953 the Arliss Co. Inc., with head office in a large mid-western city in the U.S., announced its decision to establish a wholly-owned subsidiary in Toronto, Canada. The Arliss Co. was engaged in the manufacture of branded consumer products, distributed through grocery stores and to commercial users such as hotels, restaurants, institutions and bakers. With sales amounting to over $487 millions in 1953, the company was one of the largest producers of grocery products on the continent. Amongst its many consumer products were custard and jelly desserts, instant puddings, pie fillings, pastry mixes, baking powder, baking soda, seasoning, colouring and flavouring, and numerous other allied products.

Establishing the Canadian Company

Preceding the decision to enter Canada, Mr. R. S. McKee, a vice-president of Arliss Co. Inc., headed a thorough research programme of the Canadian market. A door-to-door survey was conducted in an attempt to learn how familiar Canadian consumers had become with the company's many brands. Mr. McKee travelled from Winnipeg to Quebec, talking with hundreds of grocers, large and small, with voluntary chain members, and with chain store managers. He visited with bankers and people in other industries, and finally submitted to the company's market analysis department statistics and reports from the Canada Year Book, Dominion Bureau of Statistics, Sales Management, the Financial Post, Fortune Magazine, Business Week, A. C. Nielsen Company and International Surveys Ltd. reports, Canadian Business and other publications.

Mr. McKee believed that the results of this market research along with the availability of Canadian raw materials, pointed favourably toward proceeding with the plans for establishing the Canadian company. Apart from minor differences due to geography and the unique bilingual nature of the population, the distribution problems and the patterns of tastes and buying habits of Canada's growing population of some 15,000,000 appeared very similar to those found in the U.S. market. The research showed that Canadian consumers were quite well acquainted with the Arliss Co.'s brands because of overflow national advertising.

It was discovered that the Canadian circulation of U.S. publications advertising Arliss products was approximately 4% of the total circulation of these publications. In addition, while it was impossible to ascertain valid figures in respect to the value of spill-over radio and television advertising, it was known that about 7% of the audience of all border radio stations was in Canada. The assistant advertising manager of the Arliss Co. Inc., Mr. H. W. Ross, expressed some misgivings as to the value of these figures in assessing the importance of such adver-

tising. With four U.S. advertising agencies handling the company's line of consumer products, the print support in back of each product naturally varied from year to year, and not many of the agencies had border radio in their media recommendations. This tended to reduce the effectiveness of spill-over advertising.

In accordance with the encouraging results of the examination of the Canadian market, Arliss Co. (Canada) Ltd. was incorporated under Dominion Charter in December of 1953, with Mr. McKee and Mr. Ross named as vice-president and general manager, and vice-president in charge of advertising, respectively. Nine other management personnel of Arliss Co. Inc., were appointed to the senior management staff in order to set up the new company in accordance with established procedure. After a careful look at the labour market and a study of plant locations by the company's traffic department, construction began in January, 1954, on a suitable site in the suburbs of the city of Toronto. It was planned to begin operations with the manufacture of a complete line of instant puddings, to be sold under the company's established brand name. Other of the parent company's many products were to be added in quick succession as operations became better established.

Choosing an Advertising Agency — First Interviews

With construction of the new plant under way, Mr. Ross turned his attention to the search for an advertising agency to handle the Arliss Co.'s Canadian business. He was quite familiar with a number of U.S. agencies and was aware that many of them had fine branches in Canada, staffed by Canadians. Also, one of the several U.S. agencies handling the products of Arliss Co. Inc. had a Canadian branch. After some consideration, however, it was decided that a completely Canadian company should be sought. The advertising manager stated that "we had the basic conviction that our agency should be one whose roots were originally imbedded here."

At this time, Mr. Ross had no knowledge of Canadian advertising agencies or their operations. In an attempt to become better acquainted, he approached, in an unofficial and confidenial manner, numerous top executives of U.S. industry who had had experience with Canadian agencies. With only this background information to go on, Mr. Ross acquired the April 1953 "Annual Exhibit of Canadian Advertisements", published by "Marketing", from which be obtained a list of all Canadian advertising agencies and their accounts. He believed that, since it was essential that the company's advertising executives work very closely with their agency, only agencies with head office in Toronto should be considered.

The list of Toronto agencies and their accounts thus obtained were then closely examined and re-examined in a step-by-step process of elimination of those thought unsuitable for handling the Arliss Co.'s products. First, those agencies that handled any products competitive to the many lines that Arliss Co. (Canada) Ltd. would eventually produce were eliminated. Then, all agencies whose accounts indicated any degree of specialization along other lines than food products were eliminated. For instance, if an agency was handling a large proportion of industrial accounts, it was felt that this indicated a degree of specialization in the handling of industrial products, and, in all likelihood, the agency would not be equipped to give adequate service to food lines. The list was further reduced by a close examination of the individual executives of the agencies. Mr. Ross believed that, where close family ties existed in the management of a small agency, there was a possibility that the best interests of a client might not always be served, as family affairs at times would demand precedence in attention. Also, it was noted whether or not the agencies had branch offices. This was not necessarily a decid-

ing factor, but it was felt that the existence of branch offices might prove to be desirable at some time in the future, keeping in mind particularly Canada's bilingual marketing situation.

With the possible choices thus reduced to twelve, it was next decided to visit each one of these agencies in turn and get first-hand knowledge of their operations. Mr. Ross sent to each a copy of the Arliss Co. Inc. annual statement to familiarize them with the company and its products, and informed them that they were being considered to handle the Canadian account. One week was set aside for visiting these agencies and a schedule of interviews was drawn up.

The task force which met to make preparations for the agency interviews consisted of Mr. McKee, Mr. Ross, Mr. Ralph Henderson, head of market analysis, Arliss Co., Inc., and Mr. Leonard Corbit, media director of Arliss Co., Inc. These men drafted a lengthy questionnaire of some sixty questions which would accumulate all the information they felt would be needed on each agency. It was planned that, after the interviews, this questionnaire would be sent to the agencies with whom they had been favourably impressed. Also, a shorter list of seven questions (see Exhibit I) was designed to be asked verbally at the interviews. In order to get as much information as possible in the shortest time during the interviews, each member of the group completely familiarized himself with both questionnaires. Mr. Ross planned to spend a maximum of two hours with each agency, and it was intended that, during part of the interview, the four would split up to talk to the various department heads, copy, art, production, media, research, and so on, individually. The general matters were to be discussed as a body. The company executives also wanted to see samples of their promotions, etc.

As the interviews got under way, they were greatly surprised to discover that these agencies were considerably smaller than they had anticipated and, consequently, were not broken down physically into operating departments as had been expected. In terms of dollar amount of advertising placed in a year, one of the twelve agencies did a business of $8,000,000, and one $4,000,000, the rest all being below $2,000,000. Consequently, the group was unable to break up and gather certain portions of information individually, but rather the interviews became group discussions. This necessitated an immediate revision of the interview plan in order to cover the ground completely in a short space of time. The interviews were completed on schedule, however, and the group had seen the layout of the agencies, their organization, and samples of their work, and had learned much about their operations from the answers to the numerous questions asked. At the completion of the interviews, the four Arliss Co. executives pooled their knowledge and impressions and, as a body, eliminated five of the twelve remaining agencies from their consideration. It had been necessary, in view of what was discovered regarding the size of the agencies, to revise and considerably shorten the longer questionnaire. This revised questionnaire (see Exhibit II) was sent to the remaining seven agencies, to be completed and returned within ten days.

As the answers to the questionnaires were being returned during the days that followed, numerous calls were received from agencies which had not been visited. Mr. Ross thanked all for their enquiries, explaining why they were not being considered for handling the account. One such agency was Edwards' Advertising Ltd., of Toronto. This agency was told that it was not being considered on the strength of its handling a competitive product. However, when Edwards replied that the product in question was no longer handled, Mr. Ross agreed to visit him on the second round of interviews.

The completed questionnaires revealed a number of interesting facts that were carefully studied by the Arliss Co.'s executives. It was found that most of the agencies questioned did not have many active food accounts, though a few had accounts which were similar to a food account, i.e. dog food, restaurants, candy companies, etc. Many of the larger agencies were eliminated in the initial screening simply because they handled food accounts that were competitive.

All of the agencies indicated that they had a planning board. The planning board was usually made up of the following department heads or personnel:

Copy Director
Media Director — or representative from media department
Senior Executive — or a person who has had experience with the product under consideration
Account Executive — on the product being discussed
Art Director — on occasion
Research Director

The number of members varied between agencies, and some included other people, such as a Radio and TV Director, etc.

With regard to the question concerning the translations or adaptations of English copy to the French-Canadian market, it was discovered that all the agencies used translation offices. Although there was usually one or more persons in the agency who could read French and assist in translation, the copy was still sent out because there were so many French idioms and ways of saying things that it was thought risky to undertake this function within the agency. Most of the agencies did not have an organized research department or even an individual who could be properly called a "market research director". Most of the work done along this line was done through reputable outside firms specializing in this work. The advertising manager was not too concerned with this, but, in the circumstances, he was particularly interested to know how familiar each agency was with present day research methods and how much experience it had in working with outside services.

It was common practice for agencies to bill clients for only out-of-pocket research costs. If they did some of the supervision work and tabulating of rough data, they charged a fee or commission. Because Arliss Co. (Canada) Ltd. intended to launch many new products onto the market once it became established, particular interest was paid to whether the agencies indicated much experience in assisting clients on packaging problems. While the new packages introduced would basically resemble those of the parent company, they would have felt that a good agency could develop strength along these lines, in time, if the client desired this kind of service.

Particular interest was also paid to how question 1, under "Handling the Arliss account" (see Exhibit II) was answered. How they would handle the Arliss Co. (Canada) Ltd. account without additional manpower posed a problem for every agency, for no agency interviewed had an idle internal team that could be "sprung loose" on this account. McKee recognized that the addition of the Arliss Co.'s account to any of the agencies considered would overburden their existing staff. He realized that a small agency could not take a principal, say an agency president, and spread his services over the Arliss Co. (Canada) Ltd. account, especially if he were personally handling other accounts, although most of the agencies indicated that their principals would be active on the Arliss Co. (Canada) Ltd. account, serving as Account Supervisors.

By a careful study of the answers to these questionnaires, the company's executive team was able to eliminate three of the seven agencies that were being considered. Plans were then laid for revisiting each of the remaining four agencies and Edwards Advertising Ltd.

Second Interviews

The second round of interviews was carried out by a different group of men, consisting of Mr. Ross, Mr. McKee, and Mr. R. E. Ferris, assistant to the director of advertising of Arliss Co. Inc. At the second interviews, these men were particularly interested in the question of just how the agency would go about handling the Arliss Co. account immediately. Mr. Ross wanted to know if they were prepared to make additions to their staff if this was required to do a thorough job. Because of the relative size of the account, he was concerned that other accounts of the agency should not be neglected because of this new assignment.

This group was particularly impressed with what they found at the interview with Edwards' Advertising Agency. This agency had considerably more experience than the others interviewed in the handling of food accounts. It had handled a large Dairy Food account for some time, and had a year earlier secured another large Canadian food and confectionery account. Two of its men had had food experience with other agencies.

Edwards' Advertising Ltd. handled approximately 40 accounts and placed just under $2,000,000 advertising per year. About 50 people made up their entire staff. Mr. Ross was favourably impressed by the effort made by the principals of this organization to familiarize themselves with the Arliss Co., and by their preparation for the interviews. Besides their organization and ability, the advertising manager was impressed by the sincerity and "atmosphere" which he found there. It would be necessary in the course of business to work very closely with the agency, as a team, and share top management policy. Mr. Ross was looking for recognition of this responsibility on the part of the agency, and a sincere interest in watching Arliss Co. (Canada) Ltd. grow and in growing with it.

Arliss Co. executives visited Edwards' Advertising Agency again the following day and left the questionnaire to be completed. The advertising manager then proceeded with the examination of the other four agencies. By questioning some of these agencies' accounts, with permission of the agencies, he was able to eliminate two more. This left three agencies to choose from, one of which was Edwards' Advertising Ltd. These three had many things in common and the choice had become very difficult.

Creative Ability

Mr. Ross then made "creative ability" the next deciding criterion. On the basis of this, and the returned questionnaire from Edwards' Advertising Ltd., he was able to eliminate one more candidate from his list. The Edwards Agency seemed to have shown a greater aptitude for creative ability in the past than either of the other agencies. In one instance, it had been instrumental in introducing a new line for a client, exhibiting the kind of forward thinking that the Arliss Co. management was looking for. Edwards' Advertising Ltd. had also created and patented names for some of this client's lines and had subsequently turned the patents over to the client.

Arliss Co. (Canada) Ltd. then invited President R. W. Edwards, along with any two members of his staff, to the Arliss Co. Inc. head office. He was instructed to bring one complete campaign (with permission of the client) and to be prepared to go through its preparation step by step. This was done, and one week later Mr. Edwards was invited back to head office, where he was informed of the final decision in favour of Edwards' Advertising Ltd. as the sole advertising agency chosen to handle Arliss Co. products in Canada.

Before the final choice was made public, Mr. Ross returned immediately to Toronto and spent one entire week visiting each one of the unsuccessful agencies that had been considered. While he refused, as a matter of policy, to discuss with them the various reasons why they had not been successful, Mr. Ross thanked each personally for its efforts and co-operation. Amicable relations were maintained between the Arliss Co. and every one of the agencies interviewed. The company was gratified and impressed that in no instance had an agency handling a competing product approached them, nor had the company approached any such agency.

EXHIBIT I

ARLISS CO. (CANADA) LIMITED

AGENCY DISCUSSION QUESTIONS

(The following questions are not included in the questionnaire which will be left with prospective agencies. It was felt that these might best be covered during the time of our visit.)

1. State actual experience in the marketing and merchandising of food products.
2. If given our account, on what financial basis would you operate in making preliminary plans until actual billing starts?
3. What is the extent of the Media Director's responsibility?
    a. Final and *complete* authority on media with no overrulings within the agency possible.
    b. Recommending authority bearing considerable weight.
    c. Channeling of information to other executives.
4. How do you handle U.S. "spill-over" advertising of any of your U.S. clients? Just what is your experience in this connection?
5. In addition to advertising, do you consult with your clients on such matters as pricing, packaging design, merchandising, new products, competitive activity and publicity?
6. What experience have you had in the use of plates and other material, such as merchandising display pieces, which have been prepared in the U.S.? Is this material adapted for Canadian use?
7. What has been your experience with regard to cooperative advertising?

EXHIBIT II

ARLISS CO. (CANADA) LIMITED

I. General Information—

REVISED QUESTIONNAIRE SENT TO 7 PROSPECTIVE AGENCIES

1. We would appreciate seeing an organization chart of your agency, showing full-time salaried employees, by name and department responsibilities. A short biographical sketch of the principals and key account and department head personnel would be helpful.
2. Please indicate your top five accounts, in billing, by company and brands handled.
3. Have any of your employees participated in the introduction of food products? If so, what was done in media, deals or special promotions, publicity, etc.?
4. What is your approximate gross billing for the latest fiscal year?
5. Do you have branch offices? If so, where are they located? Please state the number of full-time employees in each branch and their function.
6. Do you have a profit-sharing plan? If so, please describe generally how this profit-sharing plan works as an incentive programme in developing younger personnel.

II. Handling the Arliss Company Account

1. To what extent would your principals be active on our account, and who would they be? At this time, and from what little you know about us and our operation, have you any thoughts on who would be the account executive and what proportion of his time would he devote to our account?
2. Do you have a planning or strategy board that operates in the planning of a comprehensive advertising programme? Who are its members, by name and function, and how does it operate?

III. Copy

1. Describe your copy department and how it works.
2. If you have a copy director, is he full-time on your staff or does he do other professional work than copy within or outside your organization?
3. How large a copy department do you have in your main office?
4. Please submit examples of different types of copy techniques used, such as continuity, testimonial, comic strip, picture-caption, institutional, etc. In submitting this material, it can also serve as examples of campaigns in different types of media, such as magazines, radio, television, billboards, newspapers, business papers, trade papers, direct mail and so forth. (All material submitted will be promptly **returned.)**
5. Please describe how you handle translations or adaptations of English copy for the French-Canadian market.

IV. Research Facilities

1. What facilities do you have to plan and conduct market surveys, marketing and advertising research? If none, then what outside services have you used? Please name.
2. If the material is not confidential, we would appreciate your making available examples of studies in the following or similar types of research work:
   a. copy testing
   b. readership reports
   c. breakdown of major consumer markets by age, sex, area, income and so forth
   d. sales analysis
   e. one example of a special study
3. What is your policy regarding research costs incurred by you? Please check or explain:
   a. bill only your out-of-pocket costs
   b. bill out-of-pocket costs and an allocated share of overhead
   c. bill the total cost plus commission

V. Art Talent

1. Do you have an Art Director and how large a staff does he have?
2. Which of the various art jobs are mainly done within the agency and which are handled on the outside:
   a. visualizations (rough layouts)
   b. comprehensives (finished layouts)
   c. finished art, including photography
   d. paste-ups (mechanicals or keylines — for both printed work and packages)

VI. Media Facilities

1. Do you have a full-time employee(s) on media and what are their names?
2. What radio or TV shows are you producing for your clients and what is the rating history on these shows?

VII. Production Department

1. How do you handle production?
2. Are you prepared to handle all phases of package keyline artwork and work with engravers and printers? Have you assisted other clients with their packaging problems and to what extent?

VIII. Miscellaneous

1. Have you ever been responsible for one of your clients taking on a new product at your suggestion?
2. Do you have a premium, promotion and merchandising department? If not, do you believe such a department is required for an account such as ours?
3. May we contact executives of grocery accounts, not competitive to our products, whose account you handle? Please list the names of these individuals or any other references you may wish to have us contact.

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